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Monthly Update

2004, Vol. 12, Year 10 DECEMBER 2004

Year End Rally Continues

The year is nearly over and the markets have been on a roller coaster this year until mid August when they started to climb higher. Technology is the preferred sector this month. Oil and gold are lower. Short-term Treasury yields are higher while long-term yields are lower. The lower spread, between the two yields, forecasts lower earnings growth ahead. Our S&P500 chart on page two shows the S&P500 index to be leveling off, while the NDX is still going higher.

The real estate sector is going up again but we are worried that rising interest rates will push this sector down and do not recommend this sector at this time. Remember that real estate dropped 20% in only 4 days earlier this year. There are signs that large institutions are investing in equities. These signs include rising prices for technology and transportation. Our analysis shows a stronger, momentum type of market, led by technology. And growth is beating value now; see the top of page two. We believe that new money, previously deployed in bonds, is finding its way into the technology sector.

Our timing models, summarized on this page, are bullish for the S&P500 and NDX, neutral for 10-year bond yields, and bearish for gold. Our work tells us that the dollar and CRB futures prices are going lower. Gold prices usually go up when oil goes up and gold goes up when the US dollar goes down. Of these two factors, falling oil prices dominates now and gold is falling.

It is official. Governor-to-be Spitzer is next going after government inefficiencies for illegal government contracts. We wonder if there are enough long-term government vacation facilities for all those government people.

Because the markets can turn quickly, be ready. May the market be with you. (December 11, 2004)