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Monthly Update

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Hedge funds rule: down again -up again

The “January effect” some were expecting did not occur. Instead of the markets going up, the markets went down. January felt like the down again - up again market of the first 9 months of 2004 when the hedge funds ruled over the buy-and-hold insurance companies.

Our analysis shows strong stock markets in Latin America, Russia, Eastern Europe, and emerging markets. This is partly due to a weak dollar, although the dollar strengthened in January. The U.S. markets are on a buy now. Other areas we like include: oil energy and energy services, and electronics. Gold appears to be have leveled off and we expect it to go higher.

The Dow is stronger now than the NASDAQ and this is one sign that large investors are nibbling in the equity market. Small and mid cap stocks are favored over large cap growth stocks. The three corners of the style box are strong and similar to each other, with large growth lagging. The small bond yield premium signals weak economic growth ahead. Sometime in 2005, we are looking for large insurance companies and hedge funds to sell large amounts of bonds and buy equities. We but don't see this happening yet due to the tame inflation front. The large deficit, lack of meaningful US jobs growth, and huge importation of cheap Chinese goods will keep inflation and long bond rates low for a time. Sometime soon even our government may be off shored.

Our analysis, see page 2, shows our new price oscillator for SP500 and Rydex energy service, RYVIX. The SP500 was oversold and a buy signal indicated on January 24, 2005 at \$1163.75. For RYVIX, it was

oversold and a buy signal indicated on January 7, 2005 at \$25.04. In general we like the U.S. markets and think higher prices are ahead.

Because the markets can turn quickly, be ready. May the market be with you. (February 11, 2005)