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Monthly Update

2006, volume 3, Year 13 March 2006

US Rally Starting

The US equity markets are showing signs of life again. Areas we like include: wireless and telecommunication, Dow 30, financials, transportation, consumer products, and small caps. Oil is moving higher but at a slower pace than usual. This market feels like a rally is beginning. The leading sector is telecommunications and a chart of Profunds UI wireless, WCPIX, price history is shown on page 2.

Both the 30- and the 10- year bond yields are being pushed higher (bonds losing money) by the Fed's action of increasing short-term rates. We think short-term rates may go to 5.5 - 5.75% before the Fed stops raising rates. Many fear a recession if we have an inverted yield curve for several months. For now, the Fed is accommodative. The US dollar is dropping some, although the US Fed Funds rate increases have propped it up relative to foreign currencies.

On the overseas front, Europe and Japan are doing well, while the emerging markets are going down. Germany and London markets are both stronger than the US market. Latin American markets have cooled down and are no longer market leaders.

In terms of the "style box", small is beating big, and value beats growth. This is a sign that the market is not topping out, and that equities have more upside potential.

Our long-term Nasdaq 100 timer changed from a sell to a buy. Recent price action for the NDX index is shown on page 2. We remain bearish for: US 10-year bonds (bond yields are going higher), and gold. The semiconductor index, SOX, is a lot lower this month and is probably in an oversold position.

Because the markets can turn quickly, be ready. May the market be with you!
(March 17, 2006)