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Who controls the world markets?

This world's markets all corrected on February 27, due to an increase in Japanese short term interest rate from 0.25 to 0.5% on February 21. This act reduced available invested leveraged money, i.e. the Japanese carry, worldwide by large hedge funds and banks. The Chinese markets dropped 8.8 % on February 27, and all the markets in the world fell at the same time. U.S. bond prices moved upward two weeks prior to the sell off and this might have been a precursor sell signal. Bonds rise in down markets. The correction seems to be over, due to a change in the US FOMC meeting note guidance on March 21 that suggest lower US short term interest rates ahead. The US economy is fragile and the Fed is fearful of inducing a recession due to their policy. Also, with the sub prime housing default problem, there is fear that defaults will spread in the banking community. We think this is unlikely and believe we will not enter a recession this year, and that equity markets will end the year higher than now. The worldwide market sell off was highly correlated, as in a previous sell off in May 2006. One has to ask, who controls the world markets?

An example of a time-dependent asset allocation is illustrated on page 2 of the newsletter. Notice that equity asset allocation fell on February 27, and is heading higher now. Contrast this with broker-dealer fixed equity allocation of 60%. Bond and bear asset allocations are contrary to equities. Our market timing indicators for S&P500, Nasdaq 100, and gold are on buys. Our signal for US 10-year bond yields changed to a buy. Strong sectors are utilities and oil. Emerging markets (MGEMX) are strong, and the US is weak and is recovering. Our indicators for the style box indicate that small cap equities are beating large cap equities, and growth beats value. The U.S. dollar is weak. A few strong ETF's are listed on page 2 of the newsletter.

Because the markets can turn quickly, be ready. May the market be with you! (March 23, 2007)