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Monthly Update

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Market Capitulation or Bear?

The U.S. markets panicked this week and went into free fall with the Nasdaq down 4.5%, the S&P500 down 3.2%, and the Dow dropped 3.6%, for the worst week this year. Just when it looked like the March 31 was a low, the markets did the unthinkable- they went lower. Equity money went out of equities and some fell into 10 year Treasury bonds as its yield dropped to 4.24%, possibly signaling a slowing growth forecast for the U.S. economy. Both the S&P500 and the 10-year bond yields are at support levels, see graphs on page 2.

Europe's growth rate is also slowing down. This sharp equity loss is very unusual and seems to be a knee jerk reaction to an IBM earnings disappointment. Earnings announcements are still underway and the street completely ignored the very positive 19% income increase for GE, a worldwide barometer of business.

But this week has all the signs of a capitulation with very heavy selling, and the put/call ratio over 1. Our sense is that we are quite near to a short-term market correction low. We think that large cap growth will reign before we go into a new long term bear market perhaps sometime in 2006.

The health care and biotech areas are nearly the only sectors worth new investment. Oil and gold are lower, large cap beat small cap, even though both are negative at this time. The U.S. dollar has appreciated recently due to further increasing short term interest rates by the Fed, relative to other central banks.

The European and emerging markets are also showing weaker equity markets.

Because the markets can turn quickly, be ready. May the market be with you.
(April 15, 2005)