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## Monthly Update

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# US Rally .....

The US equity markets seems to have stalled out in the past few weeks due to higher oil price, a stronger economy (more Fed tightening expected) than formerly believed, and saber rattling over Iran's nuclear position. Only a few areas improved since last month. These areas are mostly inflation sensitive commodities including oil and gold. 30-year bond yields are heading higher (bond prices are dropping) as illustrated on page 2. This is the time to be in rising rate funds. Most real estate funds are now sinking fast. Emerging markets are also stronger since last month. Latin America, one of last year's success stories, is now taking a breather. Japan continues to be one of the best markets, see graph on page 2.

With earnings season upon us, and good earnings reports ahead, we see our market going higher. Areas doing well include: basic material, software, and technology.

In terms of the "style box", small continues to beat big, and large growth beats large value. This is a sign that the market is not topping out, and that equities have more upside potential. Our long-term S&P500 timer changed from a buy to a sell, and Gold changed from a sell to a buy.

Overall, commodity inflation continues, investment managers are increasing the Fed's May-June Fed Funds target level, and earnings should come in at higher levels to support higher stock prices. Higher oil and interest rates will slow down the economy and hopefully the Fed won't over tighten (again) to cause a recession. (The Fed's charter is to foster price stability and not to cause recessions/massive job losses.)

Because the markets can turn quickly, be ready. May the market be with you!  
(April 13, 2006)