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## **Monthly Update**

**2004, Vol.5, Year 10 May 2004**

### **REIT Piggy Bank Broken**

**While the US market was advancing in April, China decided to slow down its growth rate by 10%. Lower demand for raw materials and oil should have been positive market forces, but weren't. U.S. interest rates are now significantly higher since March 31. For example, the US 10 year bond rate increased 23.9% in rising from 3.85% to 4.77%.**

**Coincidentally, Profunds Real Estate fund, REPIX, dropped 25.4%, and Rydex precious metal fund, RYPMX, dropped 29.7%. REITS used to be money market surrogates, but the REIT piggy bank is broken.**

**These very large market drops are either in response to future inflationary pressures (higher employment), or to reduced inflow of foreign money into our bond markets. The higher bond yields discussed above should lower by 19.1% the S&P500 P/E from 25.9 to 20.1. And, we expect further pressure on the S&P500 as rates continue to rise. It appears to us that money is flowing out of bonds, REITS, and gold into bond short positions.**

**Our timing models, summarized on this page, are bearish for S&P500, NDX, XAU, and bullish for bond yields (i.e. we recommend shorting bonds). Our timing graphs, illustrated on page 2, show bear markets.**

**Our style analysis indicates that none of the style corners are worth investing in now, even though large growth and value beats small growth and value. Utilities, financials, semiconductors, and gold are all lousy. With gold marked down so much it may be due for a bounce.**

**Is this lousy market a head fake by the N.Y. cabal or is it something to be feared for a period longer than a few weeks? Because long bond rates have increased so fast there must be something big on the horizon. For now we are cautious and on the short side.**

**Because the markets can turn quickly, be ready. May the market be with you. (May 8, 2004)**