

 **Harloff Capital Management**  
815 Crocker Road, Suite D-10, Westlake, Oh 44145  
(440)-871-7278

## **Monthly Update**

**2005, Vol. 5, Year 12 MAY 2005**

### **Tech, health care, large-cap, and growth!**

The S&P500 and NDX indexes are higher now, and US 10-year bond rates are lower, than one month ago. Health care and biotech continue to be highly ranked with our HVI system. Semiconductor, Internet, and electronics are also highly ranked. Our research indicates that the OTC index reached a local minimum a few weeks ago. These are early signs of a tech sector rally.

Our model portfolios are invested in the strongest sectors including: biotech, Internet, health care, and technology. We think these sector prices will increase over the next month.

Our research on the “style box” of large vs. small and growth vs. value indicates that large beats small and growth beats value. This is a sign that pension and insurance money, the conservative buy-and-hold money, is finally coming into the market. These large investors have been absent for quite a while. The low 10-year bond yields are forcing them back into the equity markets. These investors are long term, have lots of money to invest, and will move the markets higher.

London, Frankfurt, emerging markets, and the S&P500 indices all show weak markets. The dollar is rising while gold and oil are dropping. We think the drop in gold has been overdone and we look for a gold rally very soon. The difference between the 10-year bond yield and the short term Fed Funds rate is decreasing and this suggest that the average US stock earnings growth rate is decreasing. The recent drop in the US trade deficit is partly explained by the drop in oil prices. In opposition to the interest rate difference effect mentioned above, lower oil prices will help the US stock earnings grow.

Now architects are Asia-sourcing work; politicians are next. Because the markets can turn quickly, be ready. May the market be with you! (May 13, 2005)