



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

Monthly Update

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1 Trillion \$ hedge fund fake out!

The world's equity and precious metal markets sold off suddenly, deeply, and universally over the last 7 market days. The 8,000 plus hedge funds manage more than 1 trillion dollars and are very active long AND short traders. In contrast, the 8,000 plus mutual funds are managed with a buy-and-hold non-strategy, and manage about 6 trillion dollars. Because mutual funds trade infrequently, they are most likely not responsible for rapid market moves. The correlated worldwide sell off leads us to believe that the well-healed active hedge funds pushed the markets lower.

Some say the sell off was induced by over-speculation in basic materials, and others say the sell off was caused by a rethink of a slower worldwide growth rate due to higher U.S. interest rates.

We think the sell off is a 1 trillion dollar fake out. In our opinion this is not the down 20% market loss many bears (in shepherd's clothing) speak of. This market move was a fast worldwide correction to profit the (short) hedge funds on the down side. It is obvious to us that the cabal can induce higher volatility on a worldwide scale.

Because we compute that the markets are oversold (not presented herein), we think the next big market move is up. The markets are difficult to follow now and one must be nimble. Due to the monthly nature of this newsletter, we moved our hypothetical positions into money market.

Our only timing model on a buy is the 10-year U.S. bond yield (going higher). In terms of the "style box", value beats growth even though all are showing prices declining.

Because the markets can turn quickly, be ready. May the market be with you!
(May19, 2006)