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## Monthly Update

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# Market Peak or Move to Large Caps from Small Caps?

The U.S. equity markets might be peaking out here as we have had several “distribution (hard down)” days in the past few weeks. Alternatively, this volatility could also be the result of a long awaited reallocation from small cap to big cap. Time will tell. If it is a large cap reallocation, then investors with fixed static allocations that change (ever-so-slightly) once a year will lose.

Consistent with the small cap to large cap rotation concept mentioned above, our indicators for the style box indicate that large caps are beating small caps. Oil is a leading sector now and gasoline prices are very high now, especially in the North. Sectors to be avoided include: utilities, semiconductors, and precious metals.

On the international front, indexes with positive momentum include: the Frankfurt Dax, emerging markets, and London FTSE. The U.S. dollar is moving higher now.

Our timing models are on a buy for S&P500, NDX100, and 10-year bond yields (bond prices going lower). Our gold model is on a sell.

An example of a time-dependent asset allocation is: 60% long, 23% bonds, and 17% bear, see illustration on page 2. Notice that bond and bear allocations change contrary to equity allocation changes.

Because the markets can turn quickly, be ready. May the market be with you! (May 25, 2007)