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Monthly Update

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Summer Rally!

The S&P500 and NDX indexes, higher this month than last, are still negative year-to-date. As we expected in our May letter, the US 10-year bond rates are lower than one month ago. Our analysis continues to indicate that the entire market should move higher. We like small and mid- cap stock index funds. We also like energy, energy services, Internet, precious metals, and electronics. The summer rally is on!

Energy appears to have real staying power. One estimate is that there is a \$5.00 per barrel speculator premium and if the hedge funds ceased trading, oil would fall by this amount. Yet there is a resistance price as producers will hold prices low enough to prevent U.S. industry from fielding new oil technology. Some day, we might have a national energy plan.

Last month the large caps were stronger than small caps and this seemed to indicate that pension and insurance money, the conservative buy-and-hold money, was coming into the market. Now small cap funds are beating large cap funds and growth and value are similar. The bias for small caps indicates that market buying is broadening and now includes technology. Our model portfolios are invested in the strongest sectors including: Internet, real estate, semiconductors, and energy services. We think these sector prices will increase over the next month.

Frankfurt has our best world rank, followed by emerging markets, the US SP500 index, and the London markets, and we expect them all to appreciate over the next month. The US dollar is also appreciating, most likely due to the Fed increasing the US short-term interest rates.

Because the markets can turn quickly, be ready. May the market be with you!
(June 10, 2005)