



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

Monthly Update

2007, volume 6, Year 14 June 2007

Chinese Bond Reallocation has Confused Large Money Investment Committees

Bond yield funds have high momentum at this time, indicating that bonds are dropping in price. The U.S. equity market appears to have peaked out and many bear funds have higher absolute momentum than their bull counterparts. We provide buy and sell signals for each fund we monitor. Normally, with buys for so many bear funds, the overall market would also be in a bear trend. Our timing models are on a buy for NDX100, and 10-year bond yields (bond prices going lower), gold, and on a sell for the S&P500. In contradiction, some of the long and short small cap funds have about the same positive momentum. This state, where both long and short (small cap) funds have positive and negative absolute momentum, is unusual.

A graph for our computed long and short term momentum for each of the funds reported herein is illustrated on p. 2. This graph indicates that the bear is not yet in control and the markets may rock back and forth between bear and bull trends.

Emerging markets, technology, energy, and short bonds is our investment theme for now. We think the large movement of Chinese money out of US bonds and into equity, other country, and commodity sectors are causing many of the large money banks and large hedge funds to reallocate. These committees all sell on the same day and wait two days to reinvest. This time delay is caused by two separate committees: one to sell and another to buy. These committees are confused now, as some are shorting while others are buying small caps.

Because the markets can turn quickly, be ready. May the market be with you! (June 22, 2007)