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Monthly Update

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Small value stocks lead

Our analysis continues to show that a broad rally is still underway. The 5-, 10-, and 30-year bond rates are all falling, now that the Fed has finally raised the overnight bank borrowing interest rate. With presidential elections only five months away, we expect higher employment and equity markets.

Our timing models, summarized on this page, are bullish for the S&P500, NDX, XAU indexes, and bearish for bond yields. Our timing graphs, illustrated on page 2, shows bull markets for the S&P500 and NDX indexes. The S&P500 index, although on a buy, is weak and is close to a sell. Gold continues to be a buy.

Our style box analysis, see page 2, indicates that small cap value is the strongest investment, followed by small cap growth, large cap value, and large cap growth respectively. This small cap leadership is consistent with a growing economy. Value leading growth means that value investors are now coming back into the market. Leading sectors include energy, transportation, basic material, and also indicate a growing economy. We are wary of real estate since Profunds REPIX was recently driven down by 28% from 4/1/04 to 5/10/04 (most likely by hedge funds shorting the REIT stocks). The U.S. dollars continues to be weak due to the massive U.S. trade deficit that effectively shorts the dollar by a like amount.

Regarding world indexes, the FDAC is healthy while the EAFE and FTSE indexes are weak. Japan is the strongest Asian market and is economically related to China for growth and prosperity.

Because the markets can turn quickly, be ready. May the market be with you. (July 03, 2004)