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Monthly Update

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Cyclical Market

August 10-12 saw the end of a bear-like market, and it has recovered since then. With summer driving over and Kerry's Viet Nam anti-war stance in the news, the markets are moving higher. When oil prices go down, or when Bush beats Kerry in the election polls, the markets go up. The markets have been particularly difficult this year - with flat to downward cyclical moves, see our graphs on page 2. In this kind of market, momentum is difficult to forecast and overbought/oversold concepts have more meaning. The hedge funds (large long/short investors) are a major force and control much of the trading volume in this cyclical market. We anticipate their controlling hand to decrease as time goes on. The low exchange volume/order flows indicate that many dollars are still on the sidelines. We think dollars will flow into the market, over the next few months, as the economy strengthens and our election happens. Large insurance and pension funds will become more fully invested.

Our timing models, summarized on this page, are bullish for the S&P500 and the NDX, slightly bullish on gold, and remain bearish on bond yields.

We introduce our overbought and oversold charts on page 2. Our work clearly shows cycles, with support and resistance prices. At this time we show an upward move for both the S&P500 and the NDX.

Our style box analysis, see page 2, indicates that small cap beats large cap. Leading funds include technology, biotech, real estate, and brokerage. The U.S. dollar remains weak due to the massive U.S. trade deficit of \$600 billion/year that effectively shorts the dollar by a like amount. London and Frankfurt exchange indexes are both strong.

Because the markets can turn quickly, be ready. May the market be with you. (September 10, 2004)