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Monthly Update

2006, volume 9, Year 13 September 2006

Rally Pausing

The stock market rally, since July, is pausing to ponder if the Fed is pushing the U.S. into yet another recession. (The Fed's charter is price stability- in case nobody remembers!) With 17 Fed Funds rate hikes, recently high oil and natural gas prices, and high housing prices, the consumer is slowing down. Will the economy fall into a Fed-induced recession or will it morph into a slower yet positive growth mode and escape recession?

On a positive side, gasoline is under \$2. per gallon in Cleveland, natural gas prices are dropping rapidly, Wal-Mart is offering \$4. generic prescription drugs to Tampa residents, corporate earnings are strong, and interest rates are dropping. Thirty-year bond yields of 4.74 are higher than 10 year yields of 4.6%. What more do you want?

Technology, retailing, consumer, and leisure are good sectors this month. Oil and gold are lower. International equities have also paused; most likely for the same reason the U.S. markets have paused.

Our charts on page two show telecommunication (Rydex, RYMIX) and retailing (Rydex, RYRIX) in strong up trends.

Our timing models, summarized on this page, are bullish for the S&P500 and NDX, and bearish for 10-year bond yields, and gold. Inflation looks tame.

All four corners of the "style" box are modestly positive now, with large beating small by a slight margin. Semiconductors and financials have positive indicators and are on a buy. The German DAX index is positive, while the London FTSE is negative as are the emerging markets.

**Because the markets can turn quickly, be ready. May the market be with you.
(September 22, 2006)**