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Monthly Update

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Bond ETFs Rise as Equities Fall

On top of the Greek European /sovereign debt crisis, Bernanke's Fed announced on 9-21-11 that the Fed would purchase \$400 billion of mortgage-backed securities with 6 to 30 years maturity. The equity markets around the world reacted instantly and sold everything-and-anything to buy U.S. bonds. And U.S. Treasury bonds went up sharply in the next two days. For example, iShares Bond Funds: IEI (3-7 yr) was up 0.27%, IEF (7-10 yr) was up 1.36%, TLH (10-20 yr) was up 2.79%, and TLT (20 + yr) was up 7.19%. For comparison the S&P500 was down 6.03% and the DJI down 5.92% over the same two-day period. This data is illustrated on page 2 of this newsletter. AGG gained 0.45% and is plotted at 5.7 yr and both equities are plotted at 22.5 years.

This rapid reallocation, from equity to bonds, is due to the 70% (or so) of the world markets that high-frequency trade.

Over the last several weeks, the S&P500 minimum closing price was 1119.46 on 8/8/11, 1120.76 on 8/10/11, 1123.53 on 8-19-11, and 1129.56 on 9-22-11. Because of the multiple tests to the same level, we think the equity bottom is behind us.

Research indicates that recession isn't probable until short-term rates exceed 10-year rates. Thus we don't see a double-dip recession at this time.

Because the markets can turn quickly, be ready. May the market be with you!
(September 23, 2011)