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MARKET WATCH

A Sampling of Advisory Opinion

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Strong Without Overheating

2006 Stock Market View

by Harloff Capital Management / Investment Policy Committee

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1st Quarter: Short-term rates may go higher than consensus, to 5.50% to 5.75%. Money-supply liquidity is strong. The U.S. economy is still strong and growing, and not overheating. Credit risk is in the normal range. The U.S. stock market is undervalued, relative to bonds...[and] should have a gain in 2006.

We find the U.S. economy growing at an average three-year rate of about 3.5% per year. This is a strong increasing rate that is not yet overheating. The Treasury yield curve, from three months to 10 years, has flattened in the last year and is currently slightly inverted. This indicates that no economic growth should prevail for the next several months.

-- Gary Harloff
