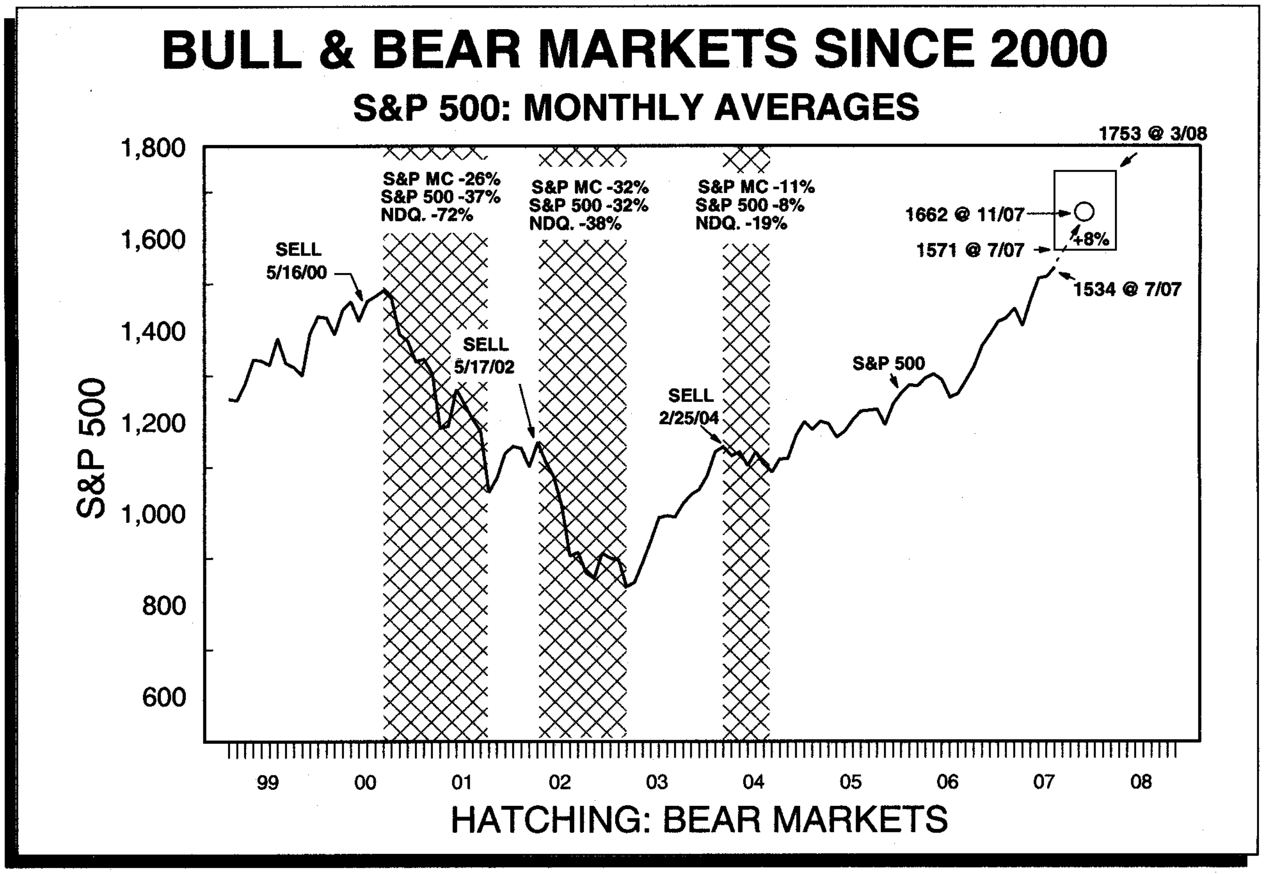
BUSINESS CYCLE DEVELOPMENTS

There are now 8 of 10 Market Peak Indicators (MPI's) signaling. This net loss of one **MPI** moves the expected target point to November '07 and 8% higher than the current July S&P level of 1534. Specifically, this would place the S&P at 1662 in 11/07. The mean absolute deviation extends from July '07 thru March '08. Current risk free annualized returns are about +5% vs. +8% to the 1662 level within 4 months. However, the average S&P decline since 1950 has been -25%, so the **sell on strength remains**.



This 35 month old bull market (they average 28 mo. (+/- 10mo.) is different than the <u>past three</u> bull markets in two ways. One, when 7 or 9 of 10 **MPI's** signaled, there was a very short lead-time to the correction (see above) - they were short-fused, compared to the current bull. Second, the Fed has dithered from the tightening that followed the excessively easy money and extremely low rates of 2001-3. This indecision has enabled money supply to again outpace the growth in loans and inventories, cancling the **MPI's**. The effect on the **MPI's** of this hesitating Fed appear over.

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