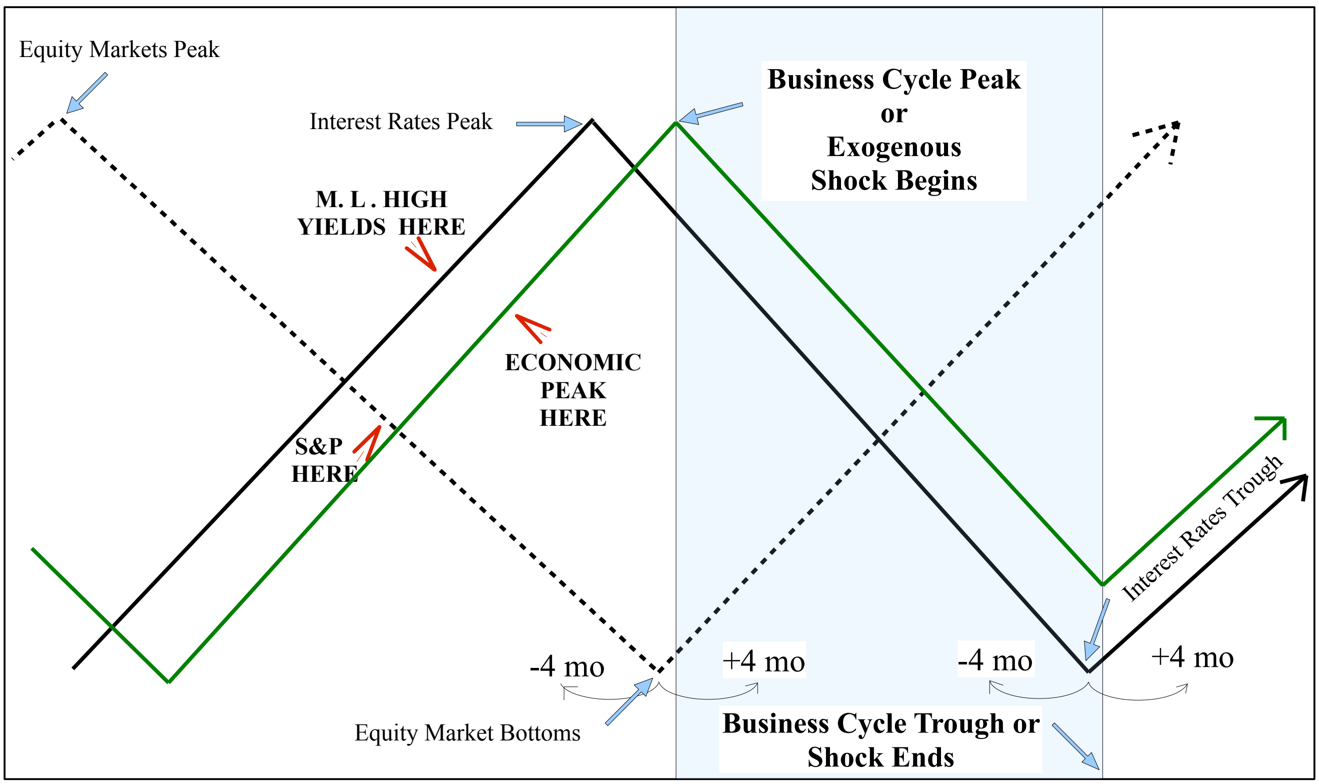
BUSINESS CYCLE DEVELOPMENTS

Currently there are two of six **Market Trough Indicators** signaling. Additionally, there are now six of eight **Business Cycle Peak Indicators.** Solely focusing on the lead-times for the **BCPI's** since 1981, would center an economic peak in October 2012 (May 2012 to March 2013). There are now four of six **Interest Rate Peak Indicators**. Again, using the lead-times, since the 1981 secular peak in yields, these four **IRPI's** would center a peak in Baa yields or Merrill Lynch High Yields in the month of April 2012 (January 2012 to July 2012). Choosing the 10 interest rate peaks and economic peaks since 1981 is appropriate, because prior to 1981 the lead-times for the four of six **IRPI's** and six of eight **BCPI's** averaged 24 months and 14 months, respectively. After 1981 they averaged two months and seven months, respectively.

The additional **IRPI's** and **BCPI's**, coupled with ignoring the fat-tails prior to 1981, are powerful evidence that we're either in a slowing or about to enter into one. The recent decline in quality U.S. yields could be attributable to more than just the EU Crisis, as high-grade yields typically peak prior to an economic slowing. There's too much caution in corporate and personal spending to warrant concerns about a recession, so at worst, this is expected to be a slowing. There's

INEXTRICABLY CONNECTED CYCLES

NO SCALE



one cautionary note, economies in a slowing mode are very susceptible to sliding into recession with some sudden surprise or shock, as slow growth tends to flush out surprises. However, these can't be predicted and there's every indication, to date, that we're going to experience a slowing. This slowing assumption is critical, because with a slowing scenario, only two of six **Market Trough Indicators** are needed to re-enter the market on weakness. The 1st **MTI** to signal was the **Interest Rate Peak Monitor** moving to the four level and the 2nd **MTI** was the S&P Diffusion Index, which centers the next cyclical bull market starting in August 2012 (June 2012 to October 2012). The percentage decline from the 2nd **MTI** to the market bottom is 6% (+/- 6%), which places the *monthly average* low for the market at 1266 (1342 to 1190). The current *monthly average* for the S&P 500, for the 17 trading days in May 2012, is 1347. If an investor interprets that we're facing recession, then three more **MTI's** are typically needed (five of six **MTI's**) before going back into the market on weakness. The S&P 500 is still expected to out-perform on the downside and has likely seen half of its *daily-close* decline, to date. **Buy stocks on expected market weakness**.