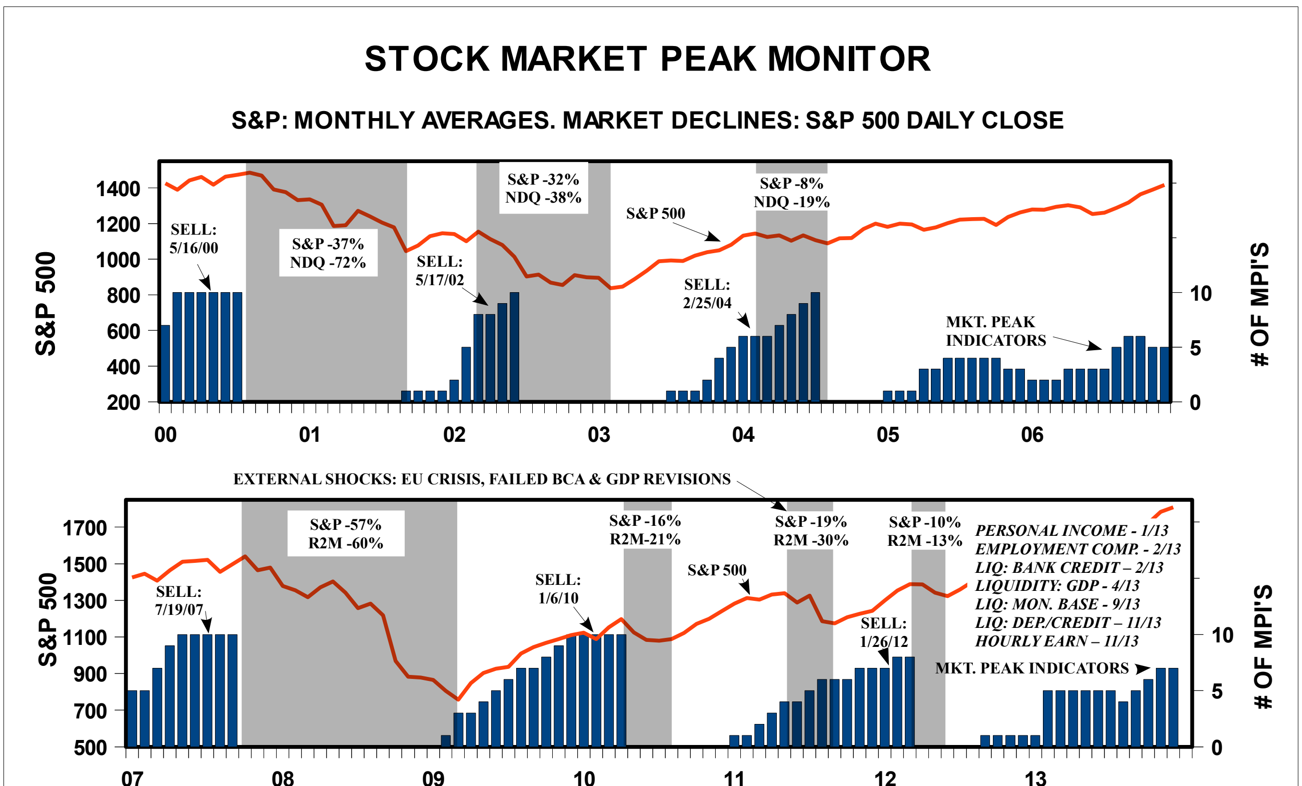
BUSINESS CYCLE DEVELOPMENTS

Since 2000 the seventh **Market Peak Indicator** has led the S&P 500 peak by four months (+/- 3 mo.). This projects a peak in March 2014 (December 2013 to June 2014) at a S&P *monthly average* level of 1927 (1855 to 1998). The current *monthly average* is 1824 (5 days from recent peak) and +5.6% below the 1927.

It's believed there is significant market risk with seven **MPI's**; however, **if it's believed that the U.S. is not in a secular bear market**, then all 17 market peaks from 1959, center a projected peak in August 2014 at 2123. The balance of this BCD update will focus on the secular experience since 2000.

The secular porpoising for 12 years show stocks leading industrial output up and down. Also the five bull markets averaged 15 months since 2000, compared to 30 months for those before 2000. There's one catalyst that can keep this market elevated, whether we're focused before or after 2000, and that is Fed easing. If they remain easy, when there are **seven or all 10 MPI's** signaling, the S&P will contort for months like a "nifty-fifty" or an oil top in '80-81 or a dot-com bubble - until a policy change. The market hasn't given up if the Fed is easy.

It's believed that removing QE is not tightening, as it's been known for quarters and now discounted in the markets. Exiting ZIRP is believed to be the catalyst. Of course, the markets will likely anticipate the Fed before the Fed acts. Monitoring a politically appointed committee is not like dealing with empirical data, but



DARK SHADING: BEAR MARKETS. HISTOGRAMS: MARKET PEAK INDICATORS.

there are several monitors that foreshadow their actions. One in particular is to note that they have never hiked the fed funds or the Discount Rate unless the two-to-10 year spread has peaked – it hasn't yet.

The other challenge is to find those sectors that will twist or bend the shape of the S&P, as they continue ZIRP, while most sectors within the S&P will correct for excesses. There are now four of eight **Business Cycle Peak Indicators**, so stronger growth along with rising commodity prices (inflation) could chase the Fed off their easing, but they are going to be reluctant due to mid-term elections. **Strategy: For those passive investors – sell into strength. For active investors - hold stocks with above relative strength and identify outperforming sectors for a trade and begin a Fed watch. Since 2000, from the 7th MPI to the top, all five bull markets experienced at least one intermediate correction of -5% (+/- 1.5%), which then rebounded to the ultimate high. The S&P is only off -1%, to date, and a rebound could help identify the stronger sectors ahead.**