BUSINESS CYCLE DEVELOPMENTS

Whether it's the 11 month average bear market in bond <u>or</u> the link between the peak in the S&P and yields <u>or</u> the average lead-time at the 4th Interest Rate Peak level, a bond rally appears just ahead.

The nine <u>cyclical</u> bear markets for bonds, since 1981, have averaged 11 months (+/- 3 mo.). The current bear market began in 6/05, when the ten year T-Note yield bottomed at a *month average* of 4%. May '06, is 11 months, with a m/a/d thru 8/06. Notice below that since 1981, the S&P peak

MARKET PEAKS LEAD PEAKS IN YIELDS

S&P 500 AND 10 YEAR TREASURY YIELDS

MONTHLY AVERAGES

PEAK IN S&P	PEAK IN YIELDS	(-) LEAD (+) LAG
4/81	9/81	-5 mo.
10/83	6/84	-8 mo.
8/87	10/87	-2 mo.
N/A	3/89	N/A
6/90	9/90	-3 mo.
1/94	11/94	-10 mo.
8/00	1/00 (11/00 T-Bill)[1.]	+7 mo. (-3 mo.)
3/02	3/02	-0-
2/04	6/04	-4 mo.
		-3 mo. AVG.

1. T-Note yields peaked in Jan. '00 just prior to the Nasdaq peak, but the T-Bill peaked in Nov. '00 just after the S&P peak in Aug. '00.

leads the peak in yields by an average of 3 months (+/-3mo). Three months after a market peak - yet to be confirmed - the S&P has typically dropped a *month average* of 7% (+/-4%). So, three months of a bear market usually shift investors to fixed income. There are now four of 6 **Interest Rate Peak Indicators** signaling. The average lead-time from the 4th **IRPI** to the peak in yields is 3 months (+/- 3 mo.) - centering a yield peak in 6/06 (3/06 thru 9/06). Bond weakness in the next few months will likely provide opportunity. Serious financial or S&P shocks would likely stimulate a cyclical rally sooner.

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May 15, 2006