

BUSINESS CYCLE DEVELOPMENTS

SUMMARY: ECONOMY & EARNINGS

All eight of 8 **Business Cycle Trough Indicators (BCTI's)** continue to point to June (+/- 2 mo.) as the low point of this economic slowing. Encouragingly, the Durable Manufacturers Index showed signs of recovery, as the July number inched ahead of June. The only pause for concern today is the similarity with the capital spending collapse in the early 1980's, when the oil industry deflated. Then, it took 5 months after the 8th **BCTI** to witness the low point of economic activity. Translated to today, it would imply a low point in August.

Earnings do not improve until an average of 3 months after the trough in Industrial Production. The markets typically look beyond the earnings chasm by a 2 quarter average, which ties into the 3/01 low in the S&P.

SUMMARY: BOND MARKET

Five of seven **Interest Rate Trough Indicators (IRTI's)** continue to point to 11/01 for a low in yields.

Historically the Fed is through easing once the

Industrial Production bottoms. A weaker dollar is inconsistent with falling yields. They can coexist for a short time, but this is another argument for rising yields. Notice in the table below, that barring another crisis, yields are influenced by the recovery in the economy. The Fed has clearly over stimulated and will likely reverse the growth in the monetary base once the economy

turns. **Sell bonds on strength.**

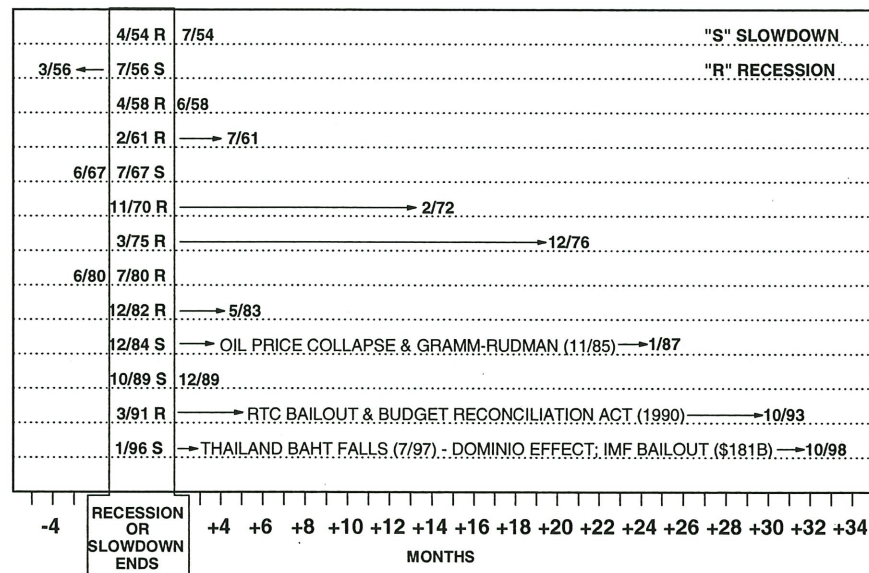
SUMMARY: EQUITY MARKET

Five of 6 **Market Trough Indicators (MTI's)** are still signaling a **"buy on weakness"**. Only 2 of six **MTI's** are needed to re-enter the market, if the economy is experiencing a slowdown, which it still appears to be - with the possibility of one negative quarter. Recessions require 5 of the 6 **MTI's** and - by definition - more time and downside price pressure.

The August *monthly average* to date, for the S&P 500, appears to be making a retest of the March low of 1186. However, smallcap and value indexes are performing in line with what the S&P 500 has typically gained 5 months into a bull market. In 1980, oil weightings fell from 35% of the S&P 500 to single digit weight over 9 years. This is to some degree the adjustment the tech and telecom are currently making and explains the anemic progress of the S&P 500. **Continue to buy select stocks on weakness.**
Bill Weissert 8/31/01

TROUGHS IN THE BUSINESS CYCLE & TROUGHS IN YIELDS

TROUGH: 10 YR T/NOTE OR 90 DAY T/BILL (LATEST TO TROUGH)
(MONTHLY AVERAGES)



BUSINESS CYCLE DEVELOPMENTS

SUMMARY: ECONOMY

Six of eight **Business Cycle Trough Indicators (BCTI's)** are signaling. These signals - based on their historical pattern - project an end to the current economic slowing in October '03 (July thru January). This implies a few more months of sluggish data - usually the level of concern is the greatest at the bottom. Industrial Production has dropped 1.8% through May '03 (2% @ the lowest point), from it's nominal peak in July '02. Declines in I.P. of 3% have correlated with negative GDP quarters; however, this downturn has passed all the litmus tests of a slowing not a recession.

SUMMARY: BONDS

Five of seven **Interest Rate Trough Indicators** are pointing to a cyclical low in the 10

year T-Note yields immediately ahead. They may have reached those cyclical lows last month, as yields typically bottom slightly ahead of the trough in an economic slowdown. The secular pattern of lower lows and lower highs (5.3% @ 3/02) is expected to continue, if US

growth is relatively anemic, as it has been since mid 2000 and the dollar continues a manageable decline. Any serious dollar fall would remove the Fed's options to accommodate growth thru the election and beyond.

Sell bonds on strength.

SUMMARY: STOCKS

Five of 6 **Market Trough Indicators** continue to point to a cyclical bull market. The average gain in the 4 cyclical bull markets from the mid 1960's thru 1982 was 50% (range: 38% to 57%). This S&P bull market began in Feb. '03 @ 838 (*mo. avg.*), which would project the *month average* S&P to 1257 (range: 1156 to 1316). The lower end of the 1156 range is the previous 3/02 high. No **Market Peak Indicators** are signaling.

Bill Weissert 6/26/03

