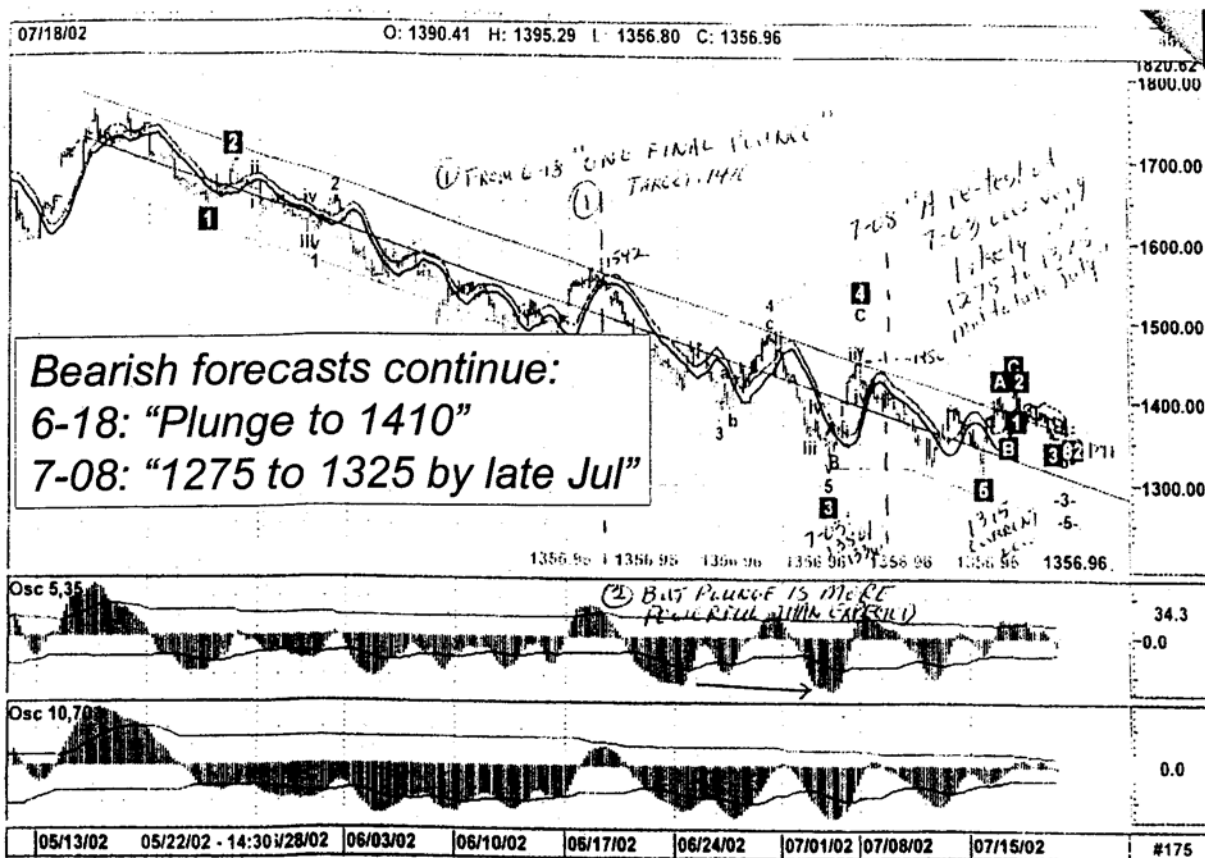
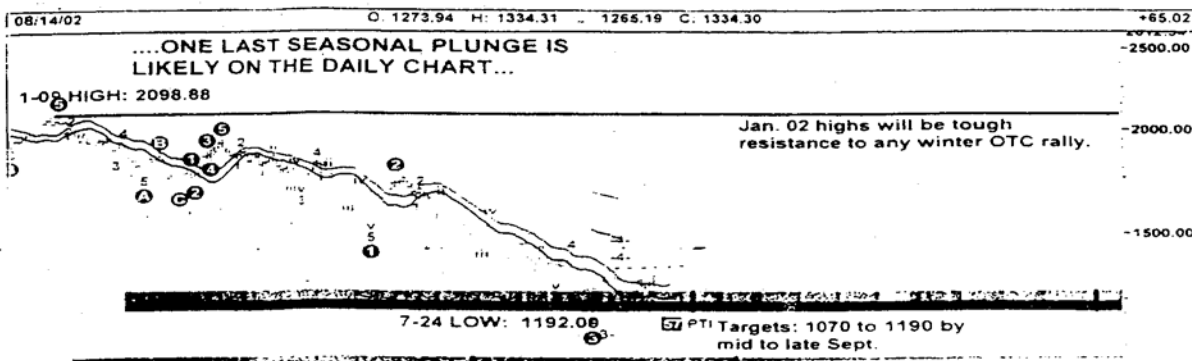
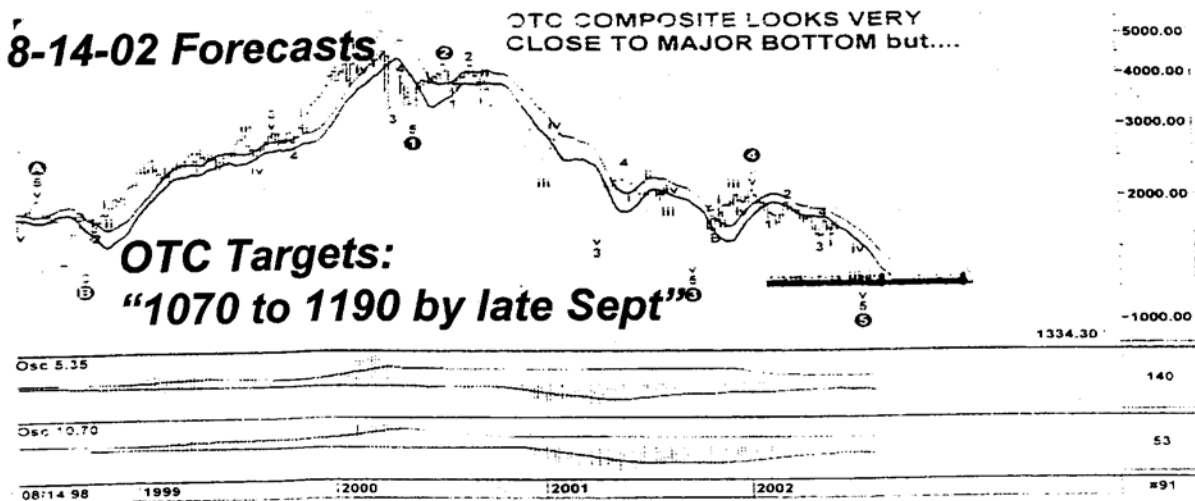


SUMMER of '02 REMAINS BEARISH



30



50
 52

9-6-2002: Our projections for further steep stock selloffs into mid October....

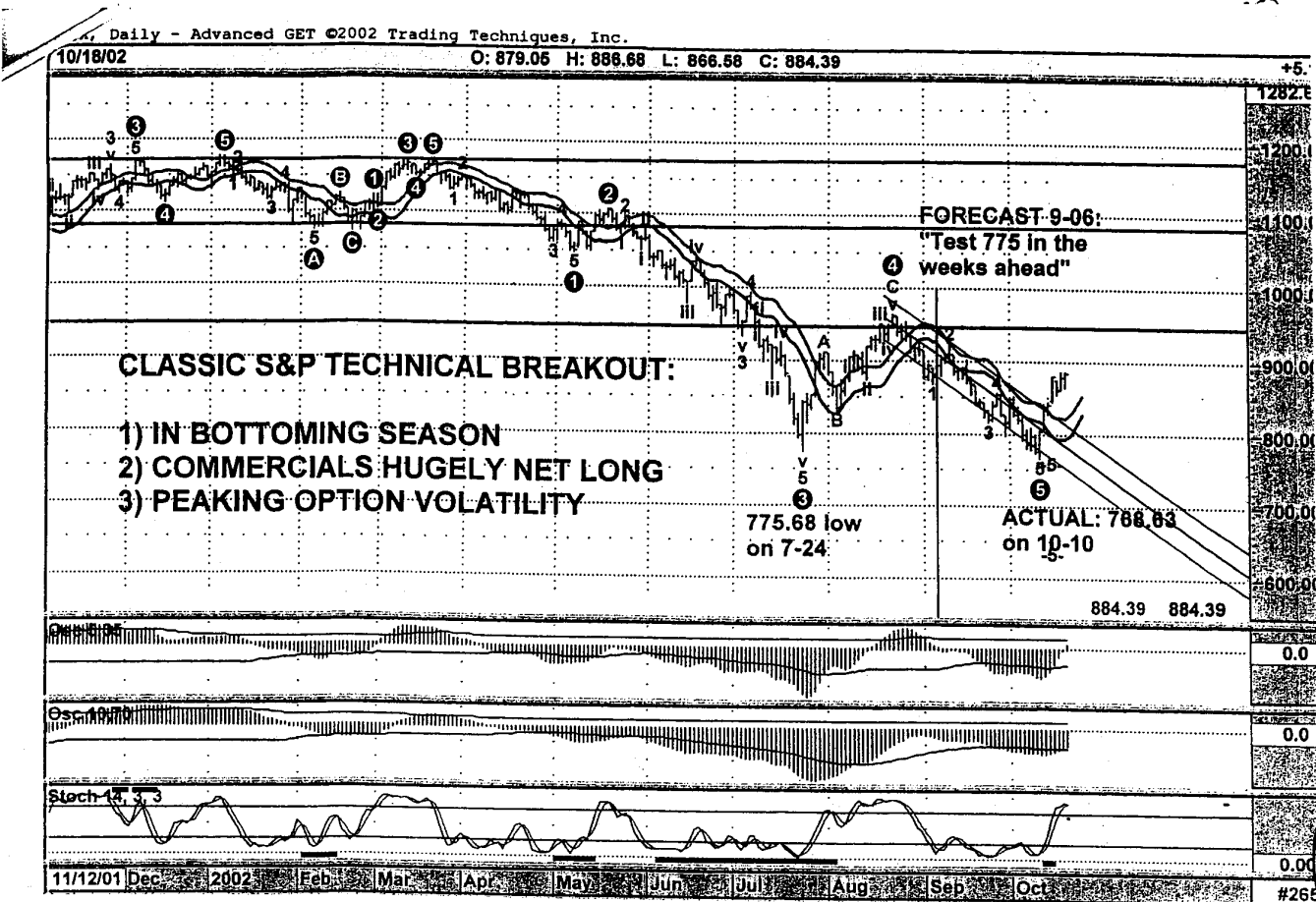
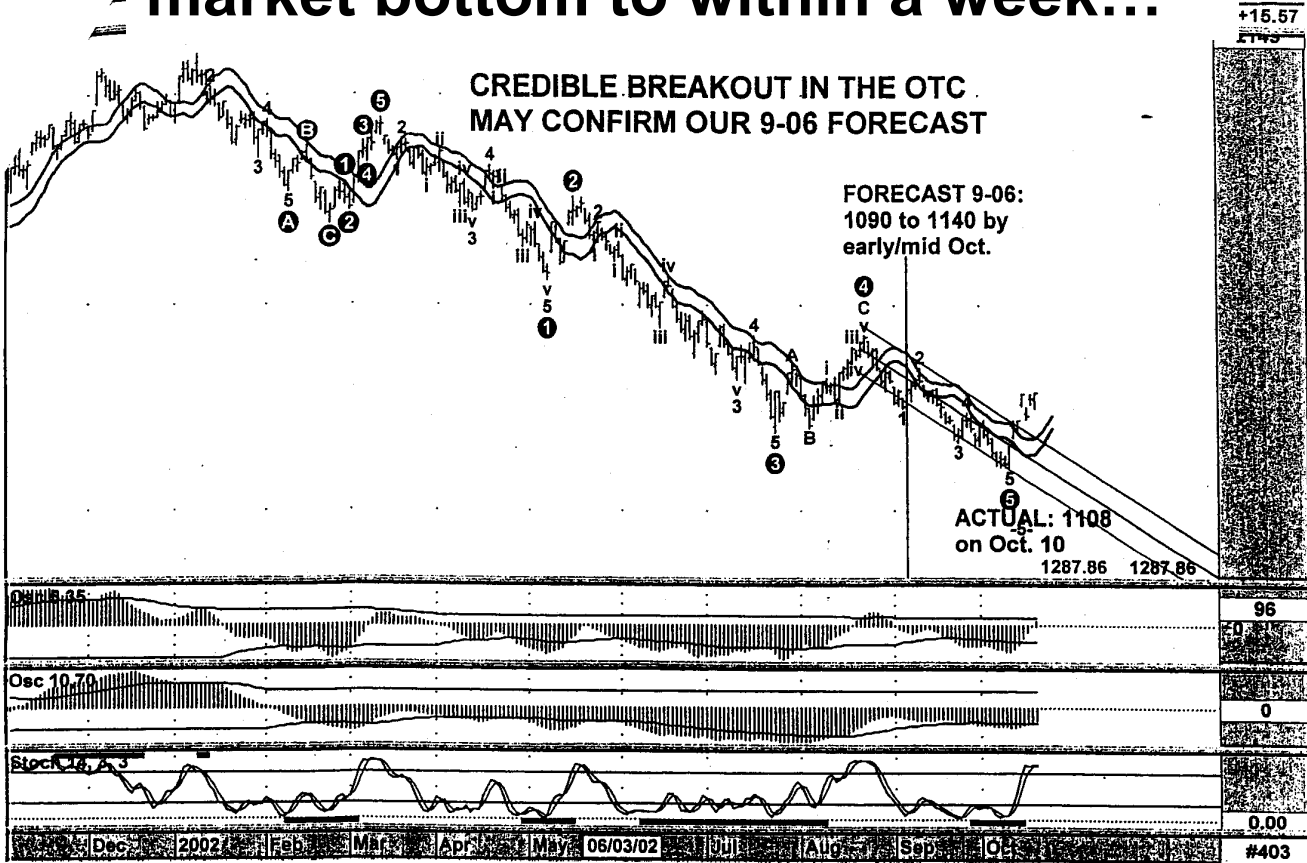
THE STRIKER REPORT, 9-06-02
BISHOP'S MARKET OUTLOOK FORECASTS

FORECAST TARGET LOWS

INDEX	PRICE on 9/6/02	PRICE	TIME
OTC	1295.30	1090 to 1140	"early to mid Oct."
NDX 100	922.22	750 to 810	"late Sept/ early Oct."
S&P 500	893.92	775.68 low is likely to be tested	"in the weeks ahead"
RU 2000	391.57	335 to 340	"by mid Oct."
VALUE LINE	1019.22	845 to 870	"by mid Oct."
DOW TRANS	2257.07	1980 to 2030	"by mid Oct."
DOW UTILS	234.56	"break below 200 to test the 7-24 low (186.49)	

53

10-18-02: Calling the Oct. '02 stock market bottom to within a week...



our 9-6-02 MARKET BOTTOM FORECAST HITS THE OCT. LOW!

Oct. 2002: All major stock indices bottom within a few points of our forecasts!

THE STRIKER REPORT, 9-06-02 BISHOP'S MARKET OUTLOOK FORECASTS

INDEX	PRICE on 9/6/02	FORECAST PRICE	TARGET TIME	LIKELY SEASONAL ACTUAL LOWS
OTC	1295.30	1090 to 1140	"early to mid Oct."	1108.49 on 10/10/02
NDX 100	922.22	750 to 810	"late Sept/ early Oct."	795.25 on 10/08/02
S&P 500	893.92	775.68 low is likely to be tested	"in the weeks ahead"	768.63 on 10/10/02
RU 2000	391.57	335 to 340	"by mid Oct."	324.90 on 10/10/02
VALUE LINE	1019.22	845 to 870	"by mid Oct."	824.77 on 10/10/02
DOW TRANS	2257.07	1980 to 2030	"by mid Oct."	2008.31 on 10/10/02
DOW UTILS	234.56	"break below 200 to test the 7-24 low (186.49)"		162.52 on 10/10/02

SB

A key driver of the 2002 bottom: Wall Street analysts slash EPS estimates. Positive earnings surprises are more likely.

Jan. '03 ANALYSTS SLASH ESTIMATES & GET THEM RIGHT!

Keeping an Eye on Two Stormy Situations

By E.S. BROWNING

JOHAN MEARA IS trying very hard to look past the war, which isn't easy. But Mr. Meara, president of St. Louis money management firm Argent Capital Management, figures that, sooner or later, the war will be resolved, and then investors will start looking again at something that a lot of people have forgotten about: profits.

People like Mr. Meara are forcing themselves to keep buying stocks despite unsettling international news. They are a big part of the reason the stock market has been in a gentle slide, rather than a plunge, in recent weeks. As war looked more and more imminent, the Dow Jones Industrial Average fell another 65.07 points, or 0.82%, on Friday, to 7861.23, its lowest close in four months. That left it down 2.1% for the week and down 5.7% on the year.

The bet these pros are making is that earnings this year will rescue the stock market, a war with Iraq notwithstanding. The question is whether they are right to make that bet.

"We think there will be a resolution of the geopolitical situation," says Benjamin Pace, portfolio manager at Deutsche Bank Private Banking in New York. "The biggest issue going forward is economic fundamentals and earnings."

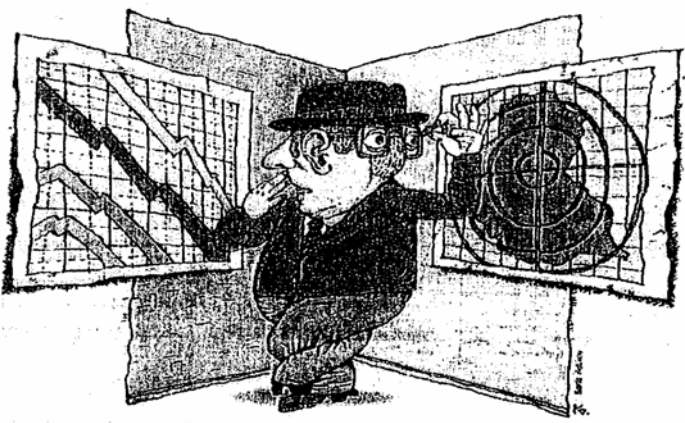
Earnings expectations will become irrelevant, of course, if something goes badly wrong in Iraq or North Korea, but few investors can predict that. As it is, they are finding plenty to worry about on the earnings front.

The initial indications of this year's profit picture aren't that strong. In recent months, more forecasts from big companies have led analysts to slash earnings expectations for the first half of this year.

In August, analysts thought earnings for companies in the S&P 500 index would grow at a rate of more than 2% in both the first and second quarters of this year. They thought that kind of growth could continue for the full year. Since then, they have steadily cut their expectations, and now are calling for less than 8% growth in the first half of the year, and about 12% for the full year, according to Thomson First Call, which collects such data.

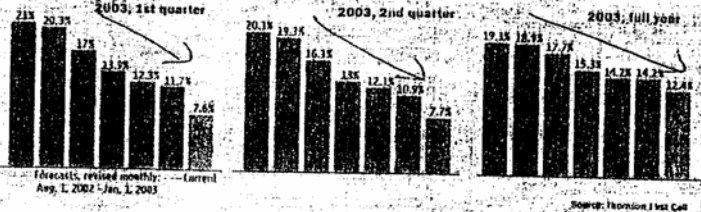
Just as worrisome, companies in the past few weeks have issued an unexpectedly large number of warnings that their performance won't meet even

Please Turn to Page C3, Column 1



Don't Forget the Battle on the Other Front

In addition, stock-market investors could be facing plenty of unsettling news on the home front. Analysts continue to revise downward their forecasts for year-over-year earnings growth for the companies of the S&P 500 index.



EPS REVISIONS COMING DOWN

45

overdone, and it feeds on itself," said Curt Hunter, head of research at the Chicago Federal Reserve. "They all talk to each other. One says things are bad, and then it builds."

Burned by retribution from the exuberance of the late 1990s, companies also are being "appropriately careful about not misleading the Street," said Timothy O'Neill, chief economist for BMO Financial Group and leader of a national economists group.

"Generally speaking, it's probably true that companies' public positions are somewhat

spiked in the first two months of the year, with eight times more selling than buying, according to Thomson Financial.

"If you're a CEO, the most recent recession was a horrible one, and the recovery has not been rapid. The market is down for a reason," said Jay Mueller, portfolio manager and economist with Strong Investments in Milwaukee. "That's why CEOs are so gloomy."

Investors are pricing in the corporate gloom, along with specific worries about war with Iraq and pension funding for an aging workforce. There are plenty of legitimate reasons to be concerned, executives say.

The Standard & Poor's 500 index closed Friday at 829.69, down nearly 6 percent since Jan. 1.

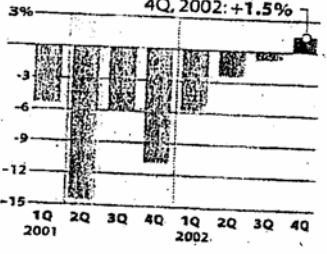
Analysts, who take their cues predominantly from companies rather than economists, still are aggressively cutting their estimates for corporate earnings in the first and second quarters, said Chuck Hill, research director for First Call, a data firm.

"The slashing started last fall, then leveled off at the holidays," Hill said. "The hope was that we'd revert to normal trimming after the first of the year. Unfortunately, slashing is still the word."

Earnings estimates for the second quarter have been

BUSINESS INVESTMENT

Percent change from previous period



... earnings growth estimates have been cut

FIRST CALL EARNINGS ESTIMATES

Change from year-earlier period

ESTIMATED GROWTH FOR 4Q, 2002

OCTOBER ~~15%~~ 15%
LAST WEEK ~~11%~~ 11%

ESTIMATED GROWTH FOR 1Q, 2003

OCTOBER ~~8.1%~~ 8.1%
LAST WEEK ~~8.1%~~ 8.1%

ESTIMATED GROWTH FOR 2Q, 2003

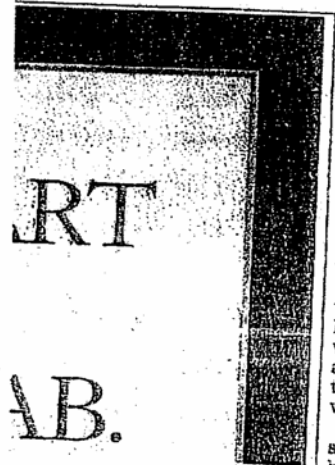
OCTOBER ~~8.0%~~ 8.0%
LAST WEEK ~~8.0%~~ 8.0%

Sources: First Call, The Conference Board, Bureau of Economic Analysis

Chicago Tribune

2-9-03
Estimate
Cuts!

S24

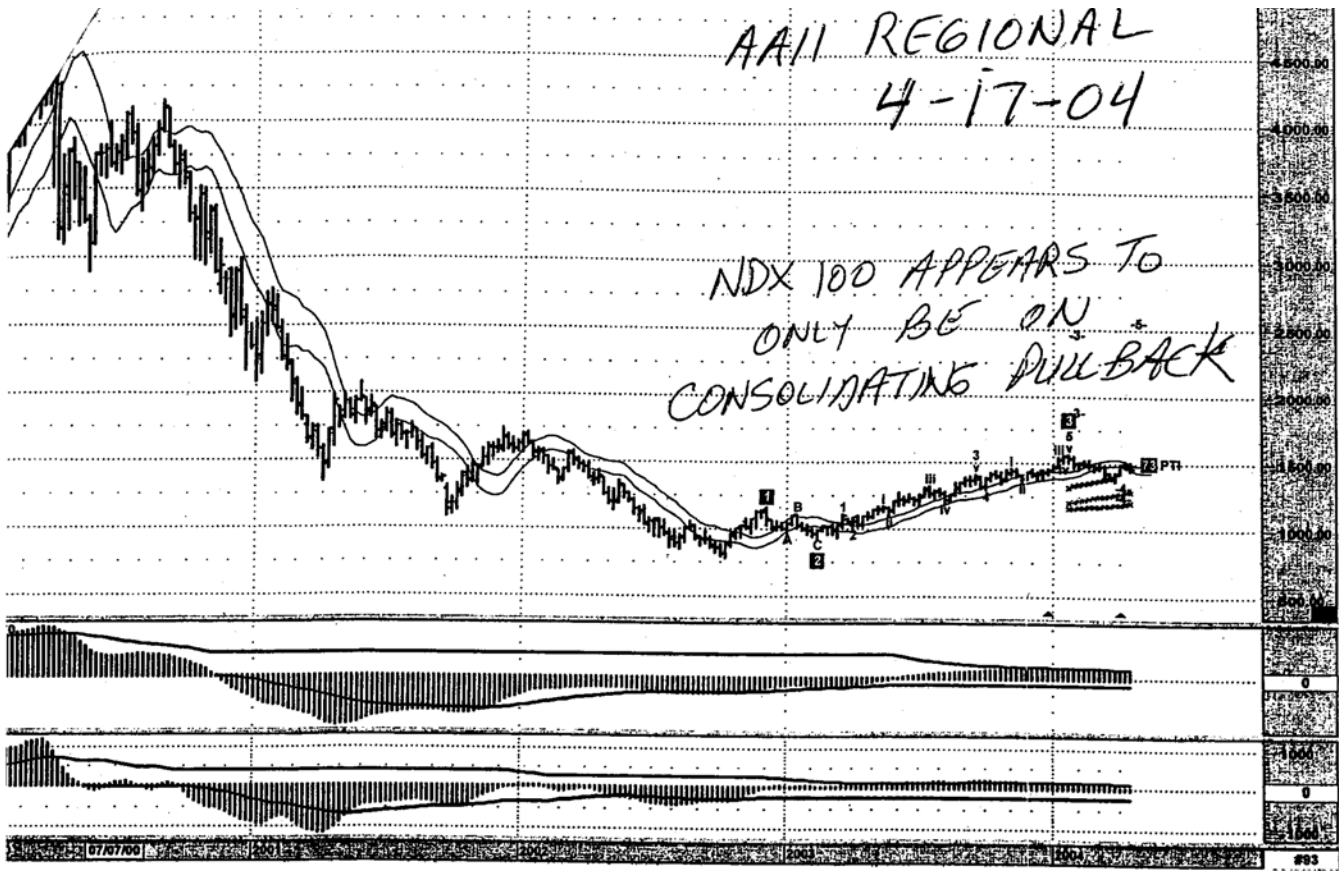


mists, many of whom believe we're in the early stages of a pickup.

"Executives have always been jokingly referred to as lagging

JK

When the market looked grim in early '04, we saw it as a pullback in an on-going uptrend.



- S&P 500 Index, Weekly - Advanced GET ©2004 Trading Techniques, Inc.

O: 1139.30 H: 1147.80 L: 1120.75 C: 1128.85



Apr. '04: We recommend accumulation of energy sector stocks based largely on relative strength

DEVELOP WATCHLISTS OF RELATIVELY-STRONG STOCKS THAT MAY RALLY IN NEXT UPLEG

RELATIVELY STRONG ENERGY STOCKS [4-17-04]

Abraxas

Amerada Hess

Anadarko

BP

Burlington Resources

Smith Int'l

Vintage Petroleum

TRADES ONLY w/ TIGHT STOPS... Have moved a long way

Nuevo

Occidental

Sun Company

World Fuel Svcs

[STOCK PICKS ON 4-17-04]

~~GR~~
SIB
~~W~~

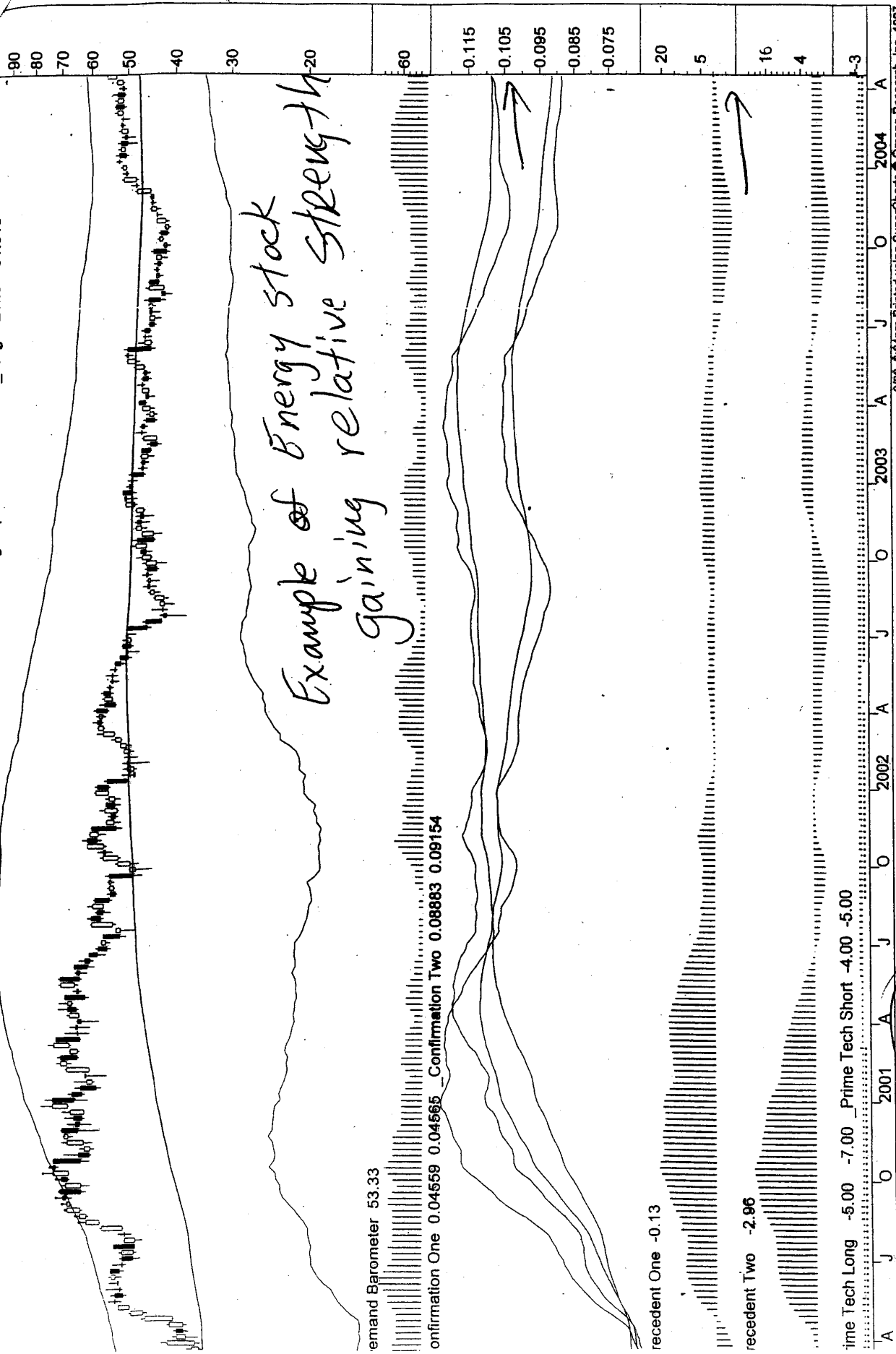
Example: APC. Good pattern & relative strength

3/03/2000

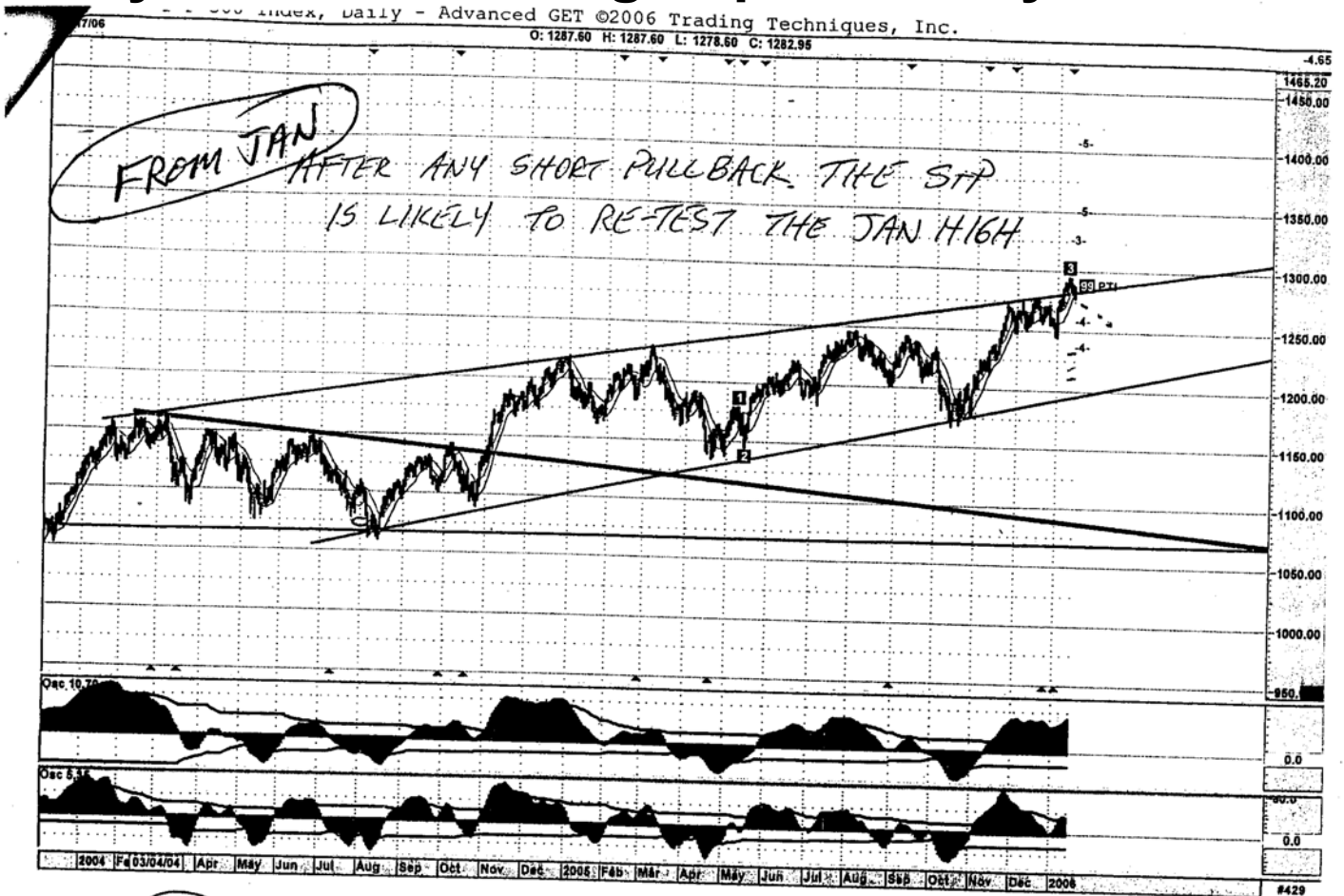
(APC) ANADARKO PETRO

04/16/2004

ANADARKO PETRO-Weekly 04/16/2004 C=56.380 +2.600 O=52.990 H=56.620 L=52.990 V=67161 Mov Avg-Exponential 47.626 Target Zone 61.918

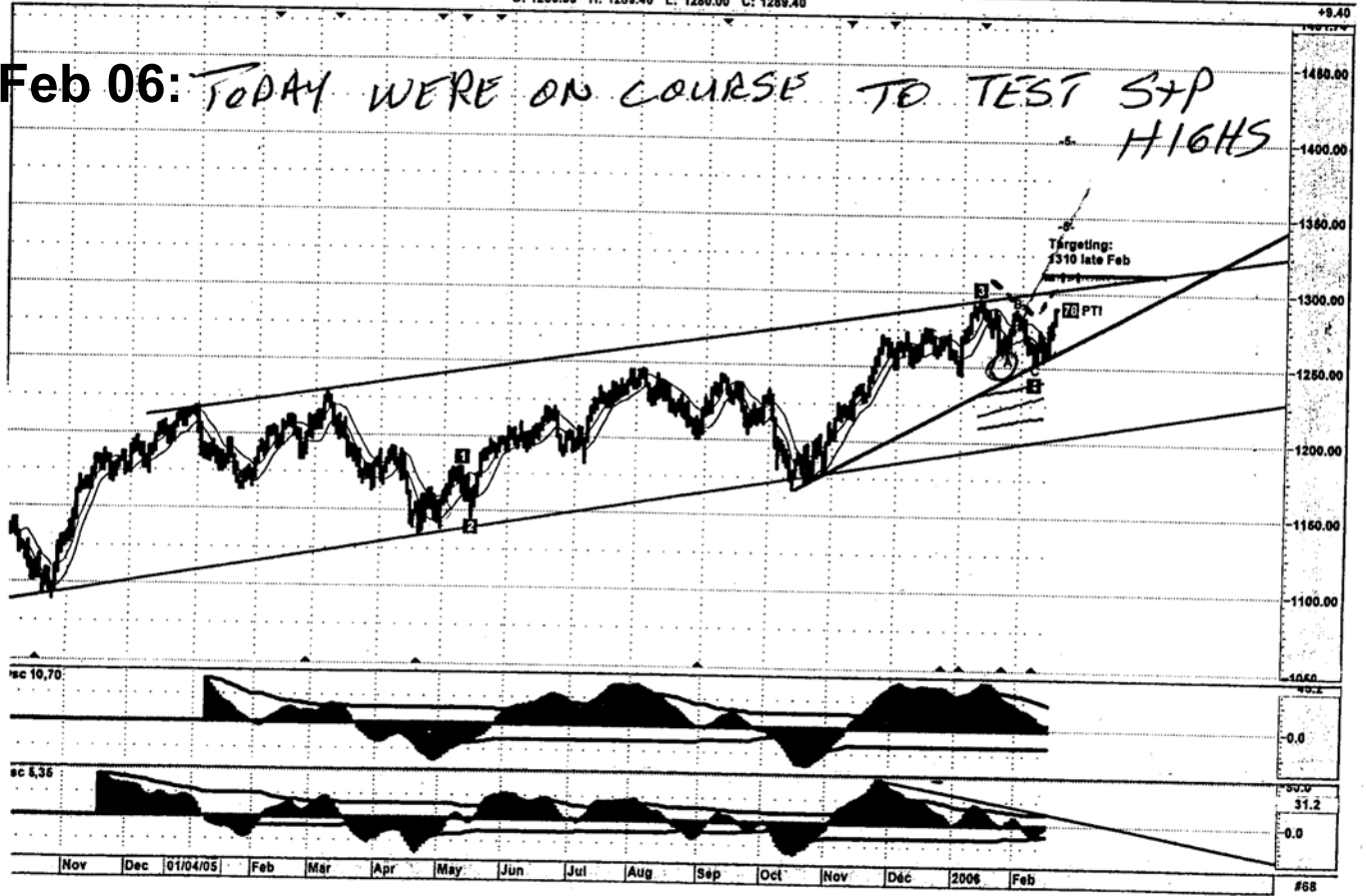


Early '06: Forecasting blip S&P rally to 1310



*SPX - S & P 500 Index, Daily - Advanced GET ©2006 Trading Techniques, Inc.
 02/16/06 O: 1280.00 H: 1289.40 L: 1280.00 C: 1289.40

Feb 06: TODAY WERE ON COURSE TO TEST S&P HIGHS

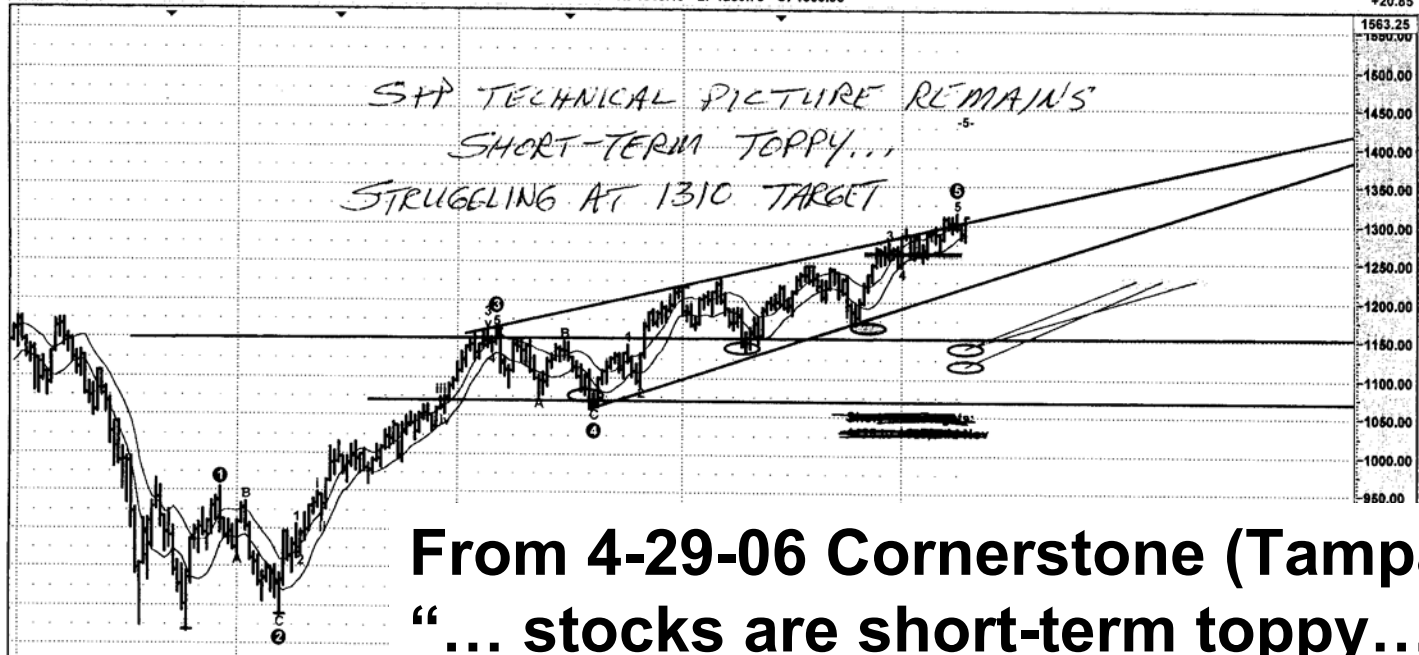


MS

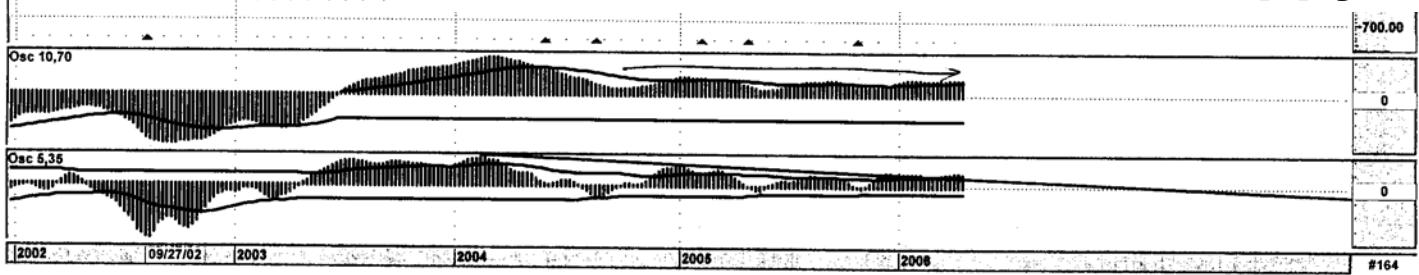
O: 1289.10 H: 1310.40 L: 1280.76 C: 1309.95

+20.85

SPX TECHNICAL PICTURE REMAINS
SHORT-TERM TOPPY...
STRUGGLING AT 1310 TARGET



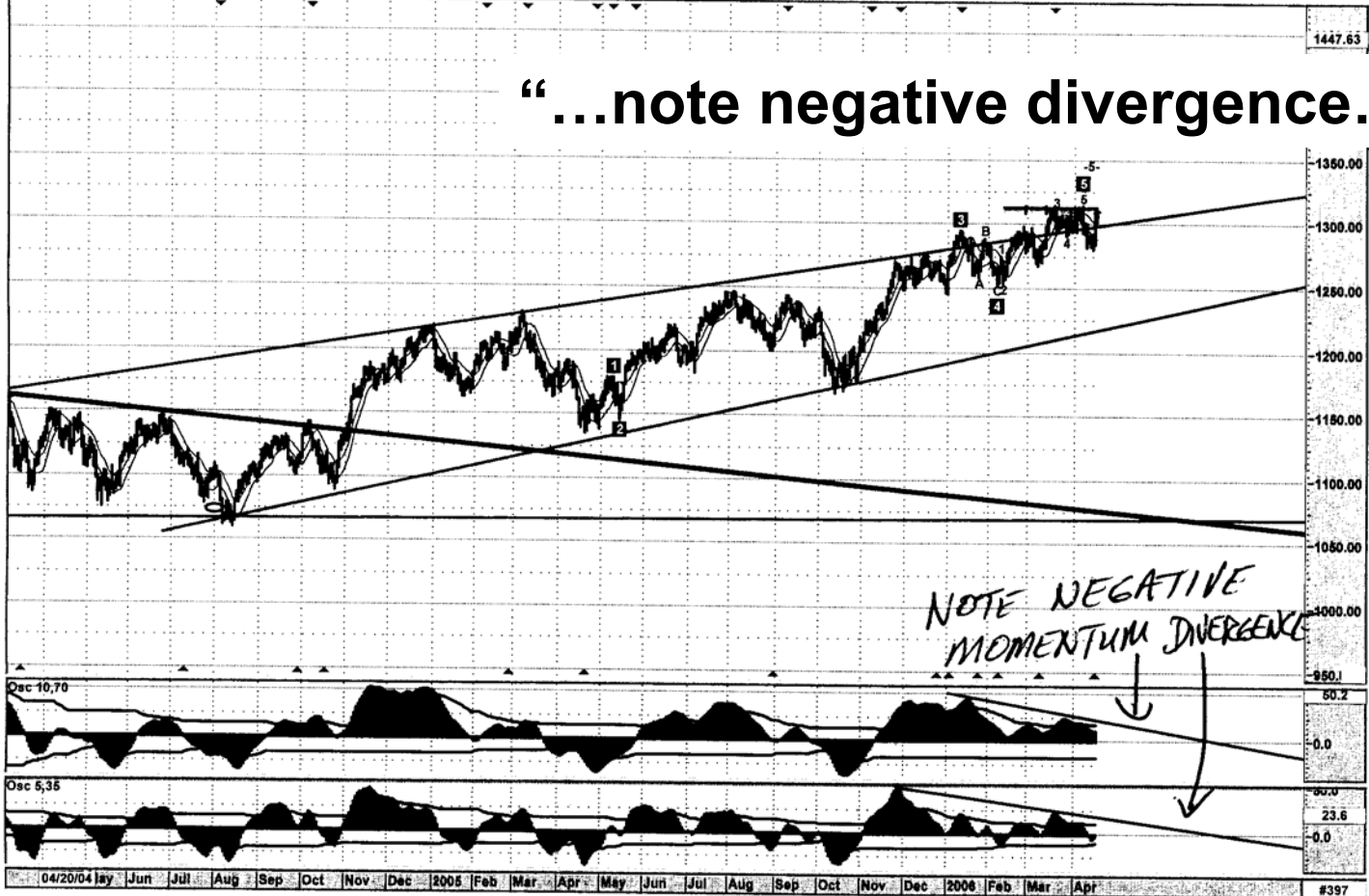
From 4-29-06 Cornerstone (Tampa):
“... stocks are short-term toppy...”



O: 1307.66 H: 1310.40 L: 1302.80 C: 1309.95

+2.30

“...note negative divergence...”



22

Another hurdle: analysts are RAISING EPS estimates... exactly opposite of the "slashing" at the 2002 market bottom!

RISK: ANALYSTS RAISING ESTIMATES... EVEN AS PROFIT OUTLOOK COOLS
 NY 7-2-05

STOCKS & BONDS, WEEKLY CLOSE

DJIA	10,303.44	↗	5.60	DOLLAR	111.70 yen	↗	2.57	GOLD (N.Y.)	\$427.80	↘	12.30	NIKKEI225	11,630.13	↗	93.10
NASDAQ	2,057.37	↗	4.10	10-Yr. TREASURY	4.05%	↗	0.13	CRUDE OIL	\$58.75	↘	1.09	FTSE 100	5,161.00	↗	82.00

Key Rates		YESTERDAY	DAY	YEAR
Percent		AGO	AGO	AGO
Prime rate	6.00	6.00	6.00	4.00
Federal funds	3.31	3.31	3.35	1.40
3-month Libor	3.52	3.52	3.51	1.60
3-month T-bills	3.16	3.16	3.12	1.22
6-month T-bills	3.36	3.36	3.33	1.63
10-yr. T-infl.	1.72	1.72	1.64	1.99
10-yr. T-note	4.05	4.05	3.91	4.56
30-yr. T-bond	4.29	4.29	4.19	5.29
Telephone bd.	5.56	5.56	5.54	6.60
Municipal bds.	4.30	4.30	4.24	5.18

Sources: Citigroup, TeleRate; The Bond Buyer, British Bankers' Assoc.

Shares Rebound From Rate Increase to Finish Week Flat

By RIVAD A. ATLAS

This week, the market only had eyes for Alan Greenspan. But that could change in the coming weeks, as investors turn their attention to second-quarter earnings reports.

On Thursday, the Federal Reserve announced, as expected, that it was raising short-term interest rates a quarter-point, to 3.25 percent. But the Fed gave no hint of halting its rate increases. Stocks dropped just ahead of the Fed report and immediately after it, as the market digested the outlook for rates.

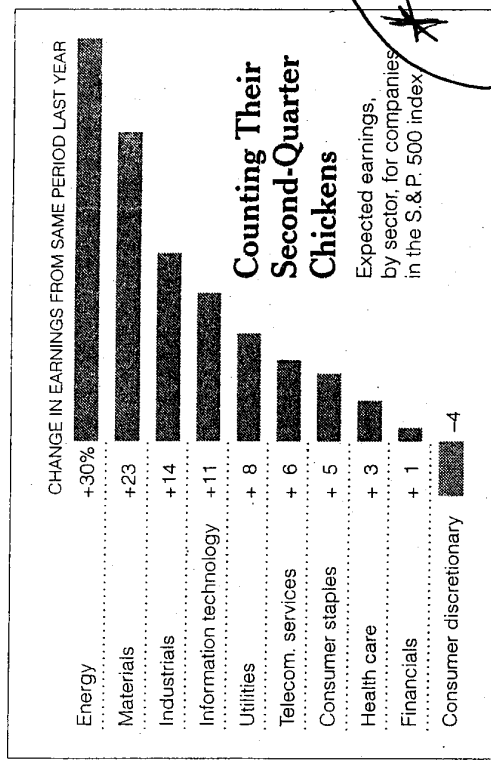
But yesterday, stocks rebounded, as a better-than-anticipated report on manufacturing growth indicated that the economy was weathering the higher rates. The University of Michigan's consumer confidence index was also up for June.

Yesterday, the Standard & Poor's 500-stock index rose 3.11 points, or 0.3 percent, to close at 1,194.44. The Dow Jones industrial average rose 28.47 points, or 0.3 percent, to 10,303.44, while the Nasdaq composite index rose 0.41 points, or 0.02 percent, to 2,057.37.

The markets ended the week basically flat, with the S&P 500 up just 2.87 points, while the Dow rose 5.6 points and the Nasdaq composite index gained 4.1 points.

The major market indexes held their gains yesterday despite an increase in the price of oil, which closed at \$58.75, up \$2.25 a barrel. Still, investors could take some comfort in that price, which is below the 52-week high of \$60.54 reached Monday. Financial markets will be closed Monday in observance of the Fourth of July.

Yields on 10-year Treasury notes edged higher, closing the week at 4.05



Counting Their Second-Quarter Chickens

Expected earnings, by sector, for companies in the S&P 500 index

the housing bubble or China, we are really talking about the risks to the economy and earnings."

Early profit reports so far have been "a mixed bag," Mr. Johnson said. This week, Oracle and Walgreen both reported stronger-than-expected profits for the quarter ended in May, while other companies, including General Mills and Monsanto, announced weak results.

But as profit announcements pick up steam in the coming weeks, investors could be pleasantly surprised by what companies have to say. Analysts have been steadily increasing their profit expectations in recent weeks, and collectively are now forecasting 7.4 percent growth in profits for companies in the S&P 500 index in the second quarter, compared with a year earlier, according to Thomson Financial, a research firm.

But when all the results are in, the growth rate could be more than 10.5 percent, said Mike Thompson, Thomson's research director.

That growth rate is less than the quarterly increases of more than 20 percent that investors had grown accustomed to through the middle of last year, Mr. Thompson said. But it is still comfortably above the historical average growth of 7.5 percent for S&P 500 companies, he said.

"We are seeing sustained growth in corporate profits," Mr. Thompson said. "But I don't think the Street is excited. They want to see 20 percent plus growth in profits," an unlikely outcome at this stage in the market cycle, he said.

Solid earnings are acting as a "stabilizing force" for stocks when investors remain concerned with the price of oil and the direction of in-

terest rates, said Edward Yarden chief investment strategist at Oa Associates, an investment firm. But the fall, he expects worries about interest rates and oil prices to disstate. "Then you will really see earnings shine," he said.

Investors will be looking to see how profits were affected by rising energy prices and interest rates, Mr. Johnson said.

Another variable is the recent rebound in the price of the dollar. Many companies that do business overseas were helped by weakness in the dollar last year, he said. "Now, with the dollar rising, we will have to see what the impact is."

Yesterday, the dollar hit a 13-month high of \$1.1947 against the euro.

Even if corporate profits for the latest quarter are as good as analysts expect, investors should list carefully to forecasts for the second half of 2005, said Charles L. Hill, whose consulting firm, Veritas e Lux, analyzes corporate profits.

Currently, analysts expect profit growth of 15 percent and 12 percent respectively, for the third and fourth quarters, he said.

"I am suspicious of those numbers," he said. If analysts end up having to pull back their estimates, that could be bad news for stock prices, he said.

The New York Times
Source: Thomson Financial

"Earnings are ultimately the most important variable for the price of stocks," said Hugh A. Johnson Jr., chief investment officer of Johnson Illington Advisors, a money management firm based in Albany. "When we talk about Fed policy, oil prices,

The Favorites

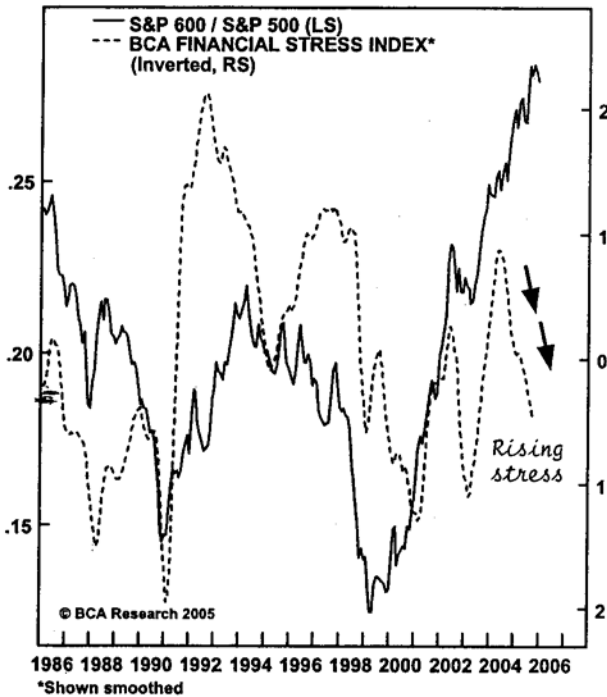
Stocks held by largest number of accounts at Merrill Lynch.

STOCK	CHANGE (%)		STOCK	CHANGE (%)	
	CLOSE	DAY		CLOSE	DAY
Agere	11.73	-2.3	JPMorgCh	35.06	+0.2
Chevron	56.97	+1.9	JohnJh	64.95	-0.1
Cisco	18.99	-0.5	Lucent	2.94	+1.0
Citigroup	46.16	-0.2	Merck	31.06	+0.8
Comcast	30.45	-0.7	Microsoft	24.71	-0.5
ExxonMob	58.31	+1.5	Pfizer	27.10	-1.7
GenElec	34.74	+0.3	ProctGam	52.90	+0.3
HomeDep	39.49	+1.5	TimeWarn	16.59	-0.7
Intel	26.21	+0.7	VerizonCm	34.57	+0.1
IBM	74.67	+0.6	WalMart	48.28	+0.2

...especially when a profit slowdown is likely...

*EMK 11/16/05
QUESTION*

CHART 14
Financial Stress Is On The Rise



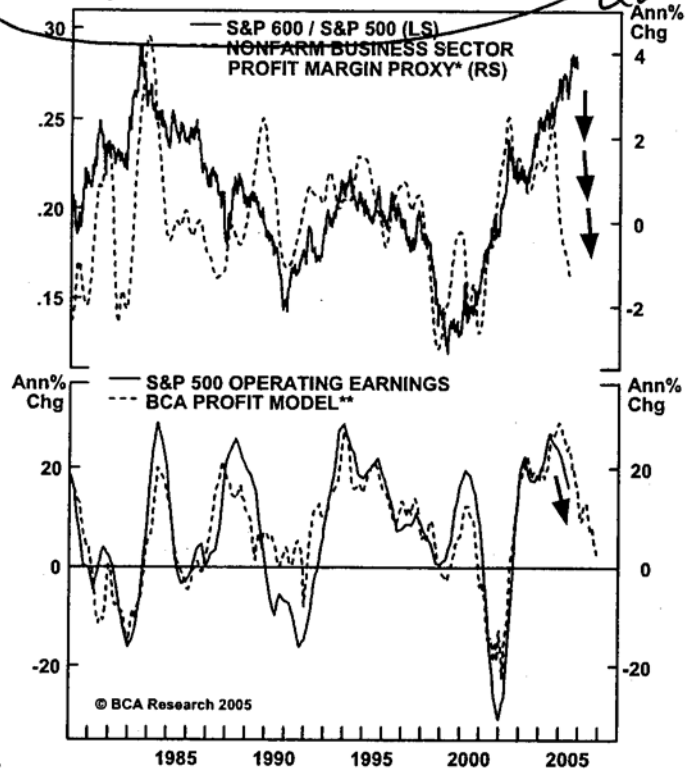
Importantly, financial system strains are on the rise, according to our proprietary Financial Stress Index (shown inverted, **Chart 14**). Rising stress is typically associated with the underperformance of the risky small cap asset class.

Watch Out For Profits

Our profit margin proxy is highly correlated with the capitalization cycle (**Chart 15**). The marked divergence this cycle highlights that small caps are in overshoot territory. Rising wage bills, higher interest expenses, and high commodity costs combined with an expected slowdown in demand should ensure that profit margins get squeezed and profit growth decelerates steadily (**Chart 15**, panel 2). The implication is bearish for small caps to the extent that they are a play on profit growth.

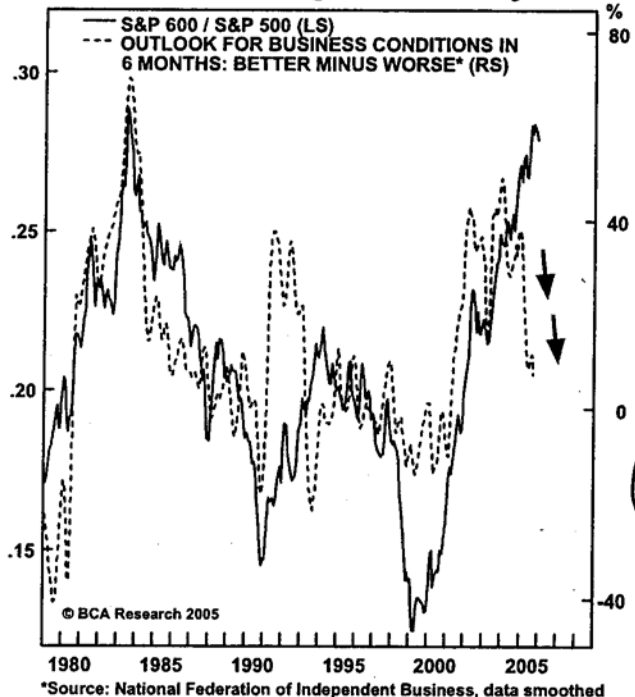
It appears that some of the slowdown forecast by our profit model has affected small cap manager's

CHART 15
Expect A Profit Growth Slowdown



*Implicit price deflator divided by unit labor costs
**Based on the yield curve, the dollar, oil prices, real corporate bond yields and a profit margin proxy.

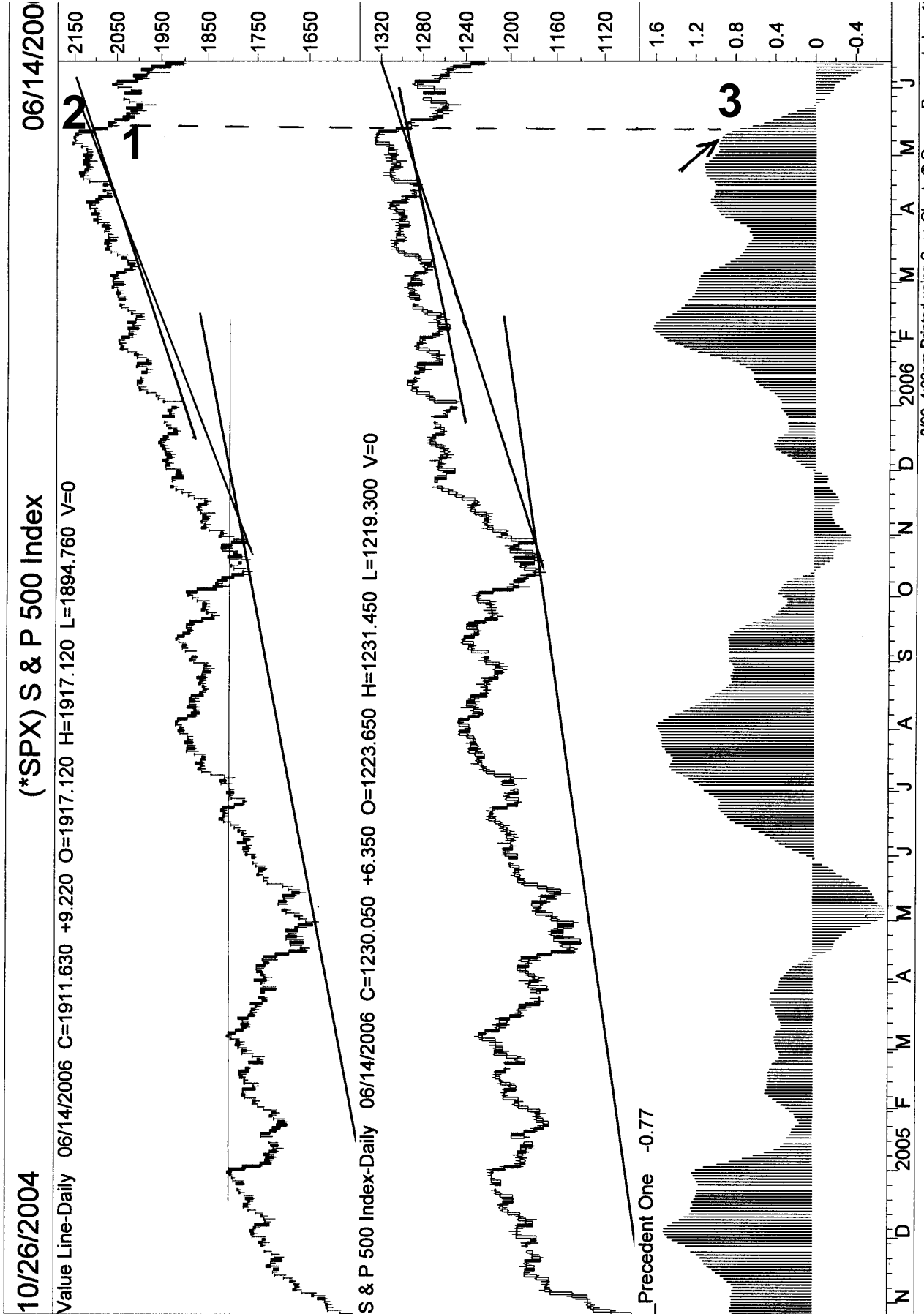
CHART 16
Small Business Managers Are Already Nervous



34

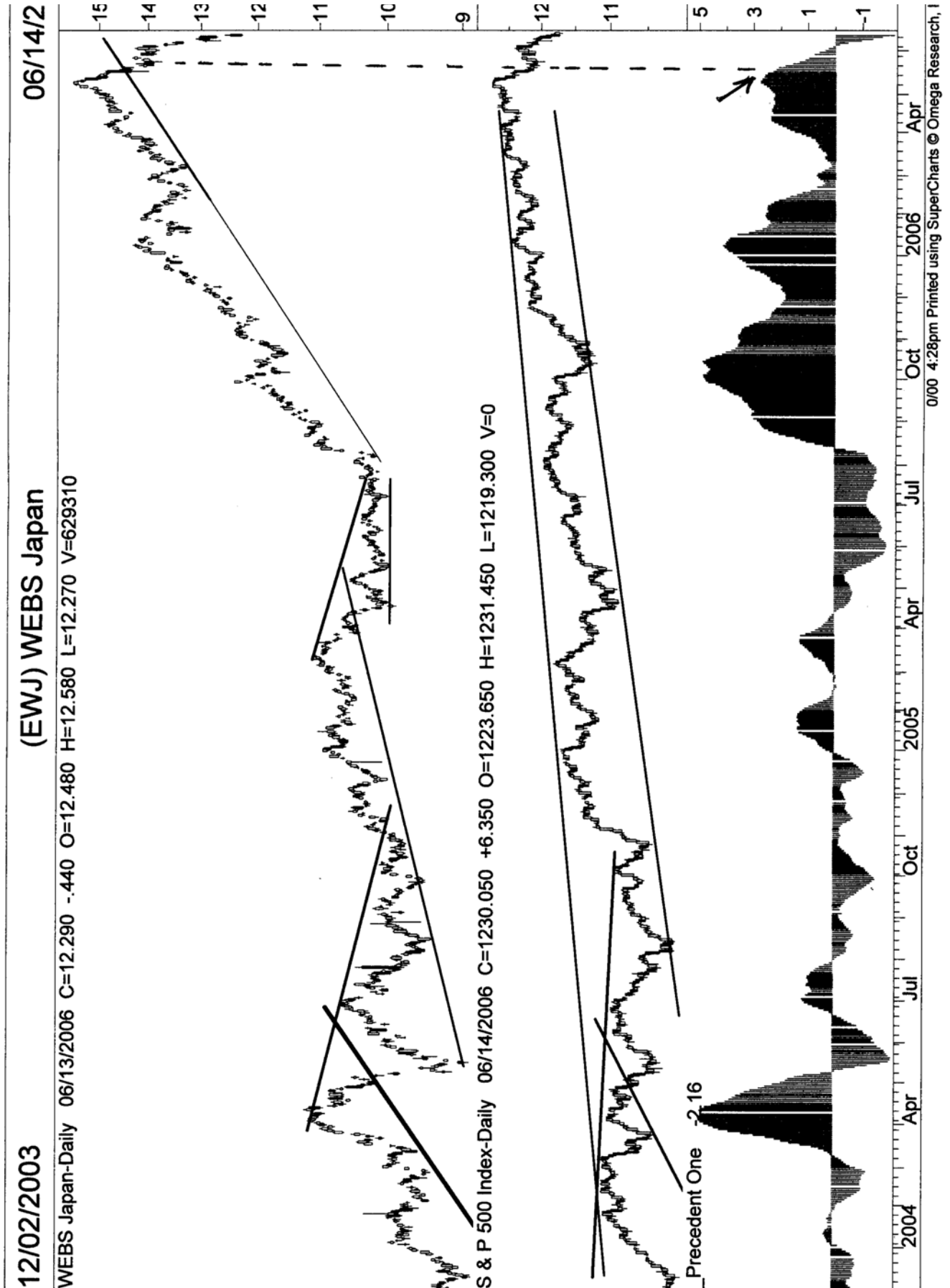
5-12-06 BREAKDOWN CONFIRMATION SIGNALS:

- 1) Two major black candles
- 2) Multiple support trendline breaks
- 3) Value Line relative strength Indicator turns negative.

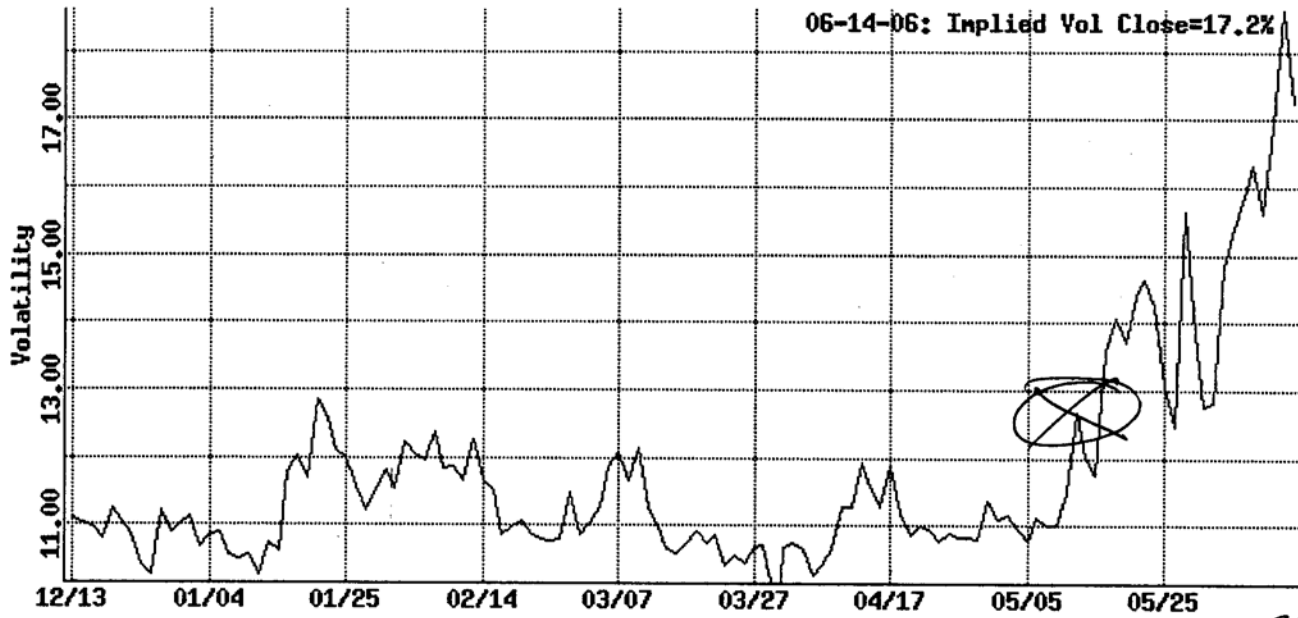


5-17-06: MORE SELLOFF CONFIRMATION

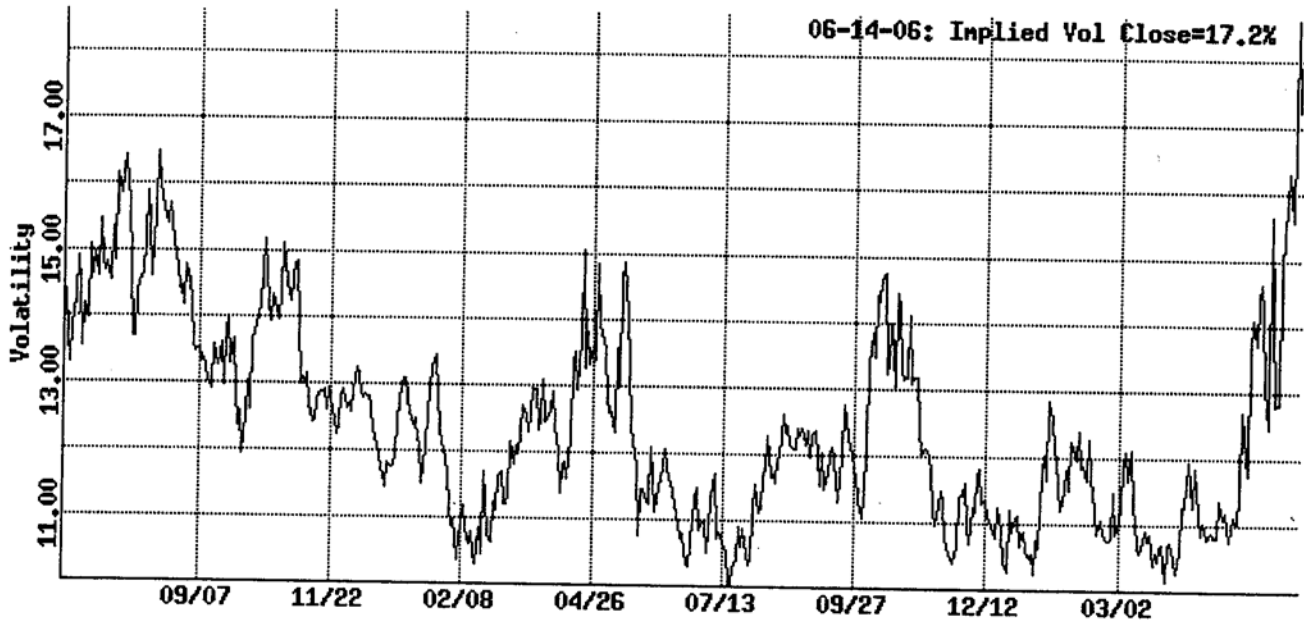
1) Japan LEADS the downside 2) Volatility explodes



5-18-06: S&P Volatility breaks out & "confirms the move"



HUGE VOLATILITY BREAKOUT IN EARLY
MAY WAS CLEAR SIGNAL SELLOFF
IS FOR REAL...



VOLATILITY NOW AT 2 YEAR HIGHS!

515

5-19-06: Projecting S&P selloff to 1175-1225 short term...

05/17/06 0: 1291.75 H: 1291.75 L: 1267.30 C: 1270.30

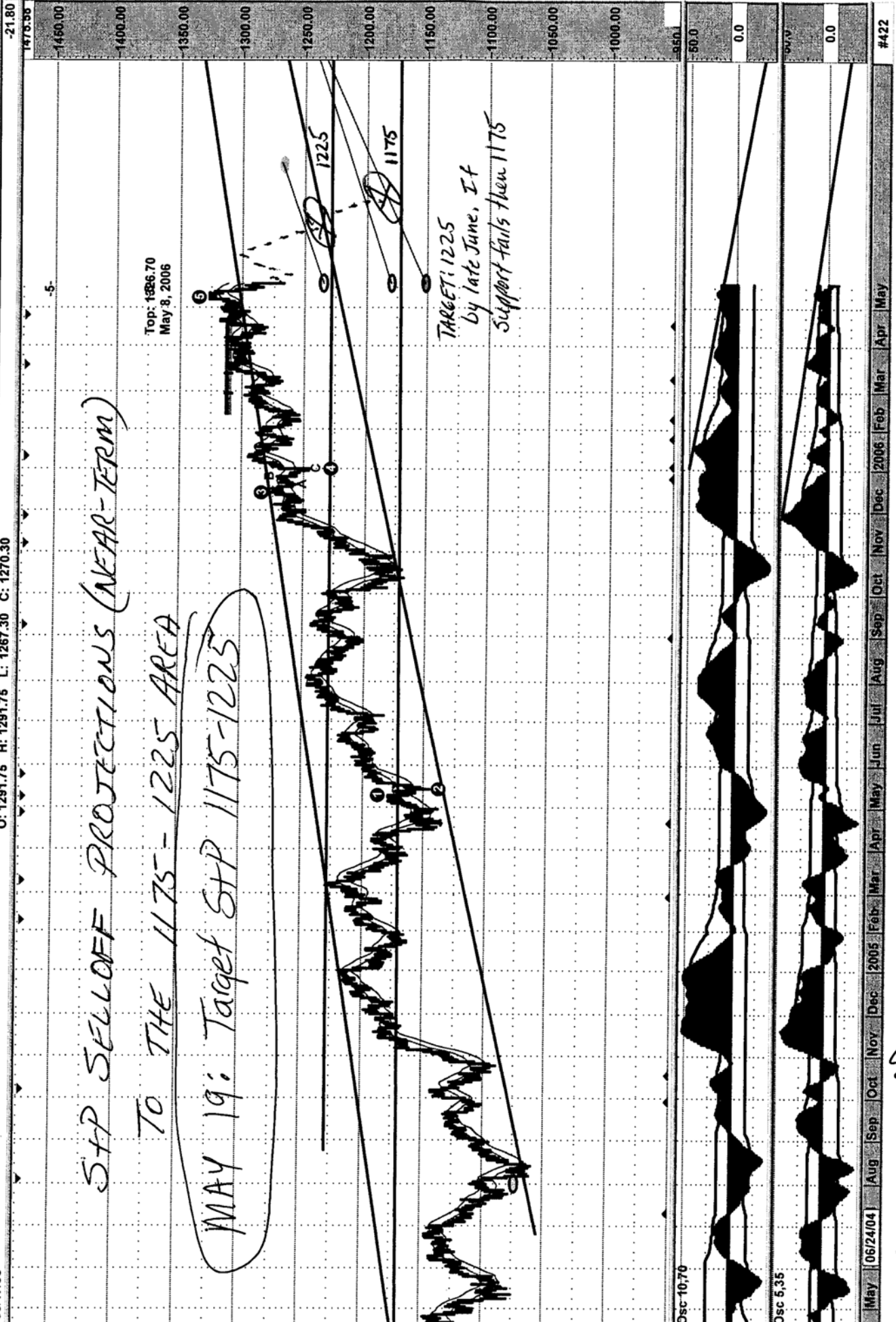
S&P SELLOFF PROJECTIONS (NEAR-TERM)

TO THE 1175-1225 AREA

MAY 19: Target S&P 1175-1225

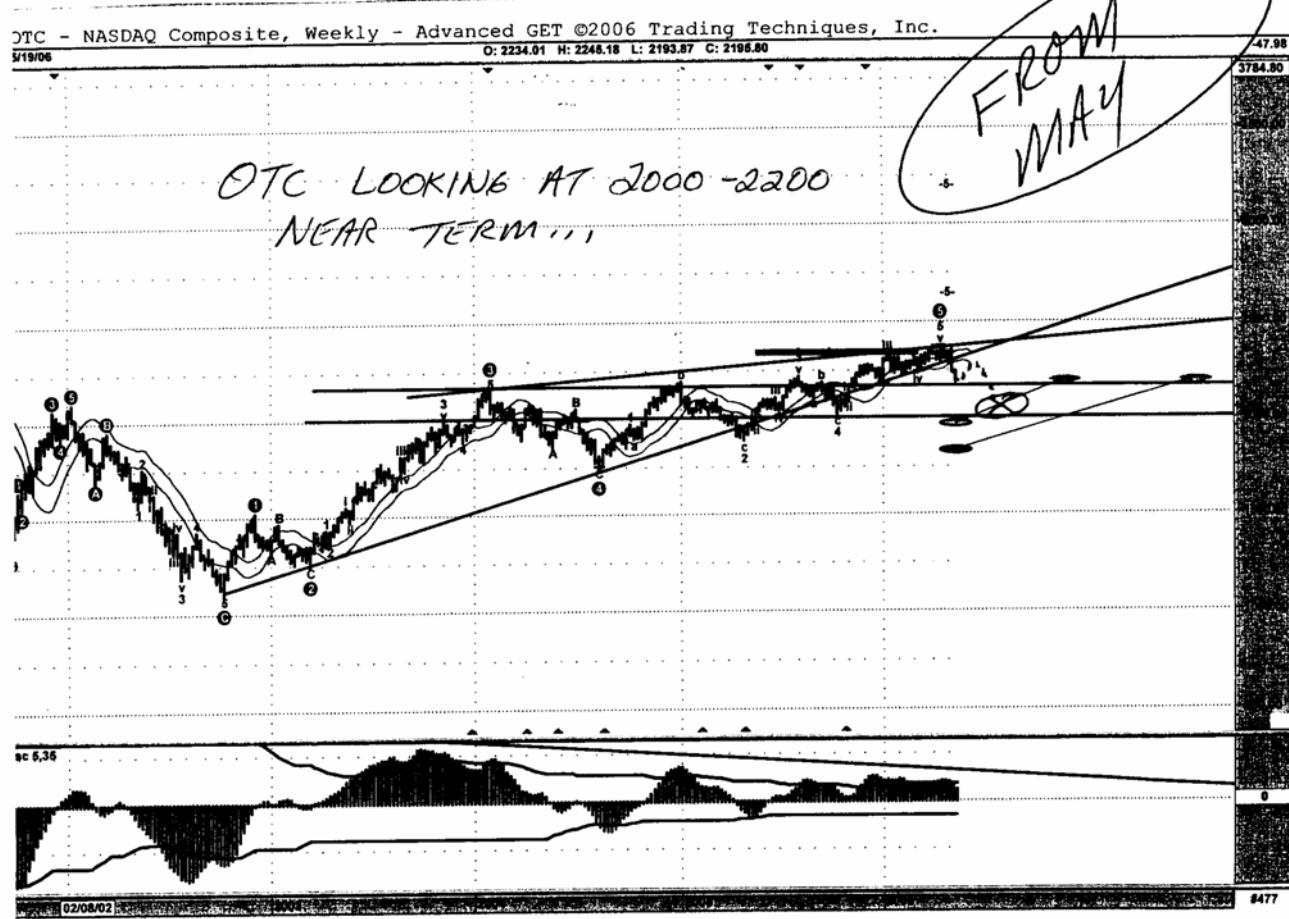
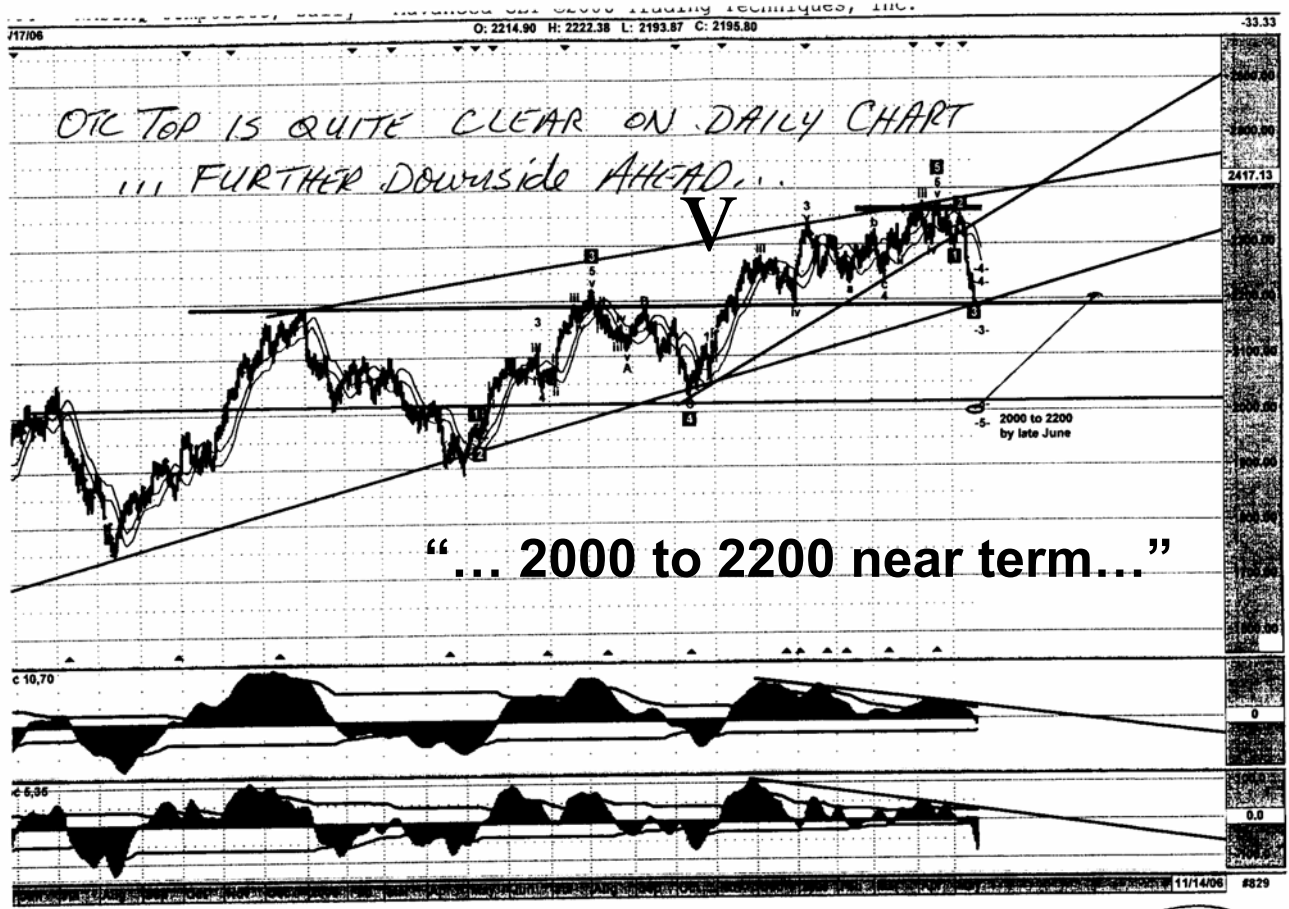
Top: 1386.70
May 8, 2006

TARGET: 1225
by late June, if
Support fails then 1175



59
S&P

5-19-06: "... OTC Top quite clear... further downside ahead..."

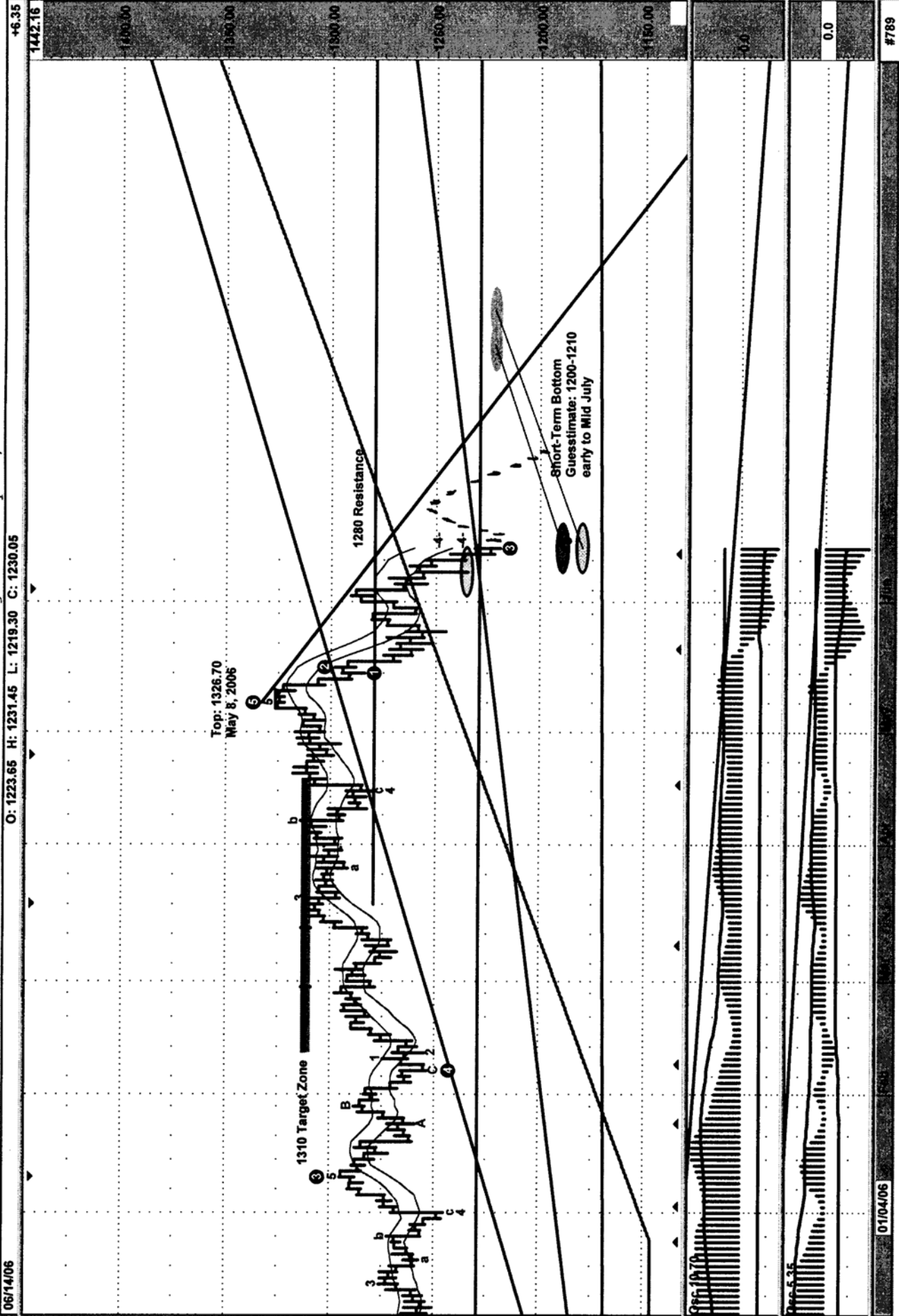


S10

ST

6-14-06: S&P Hits 1219 intraday... look for lower lows into July earnings season. Targeting 1180-1210 by mid July...

*SPX - S & P 500 Index, Daily - Advanced GET ©2006 Trading Techniques, Inc.



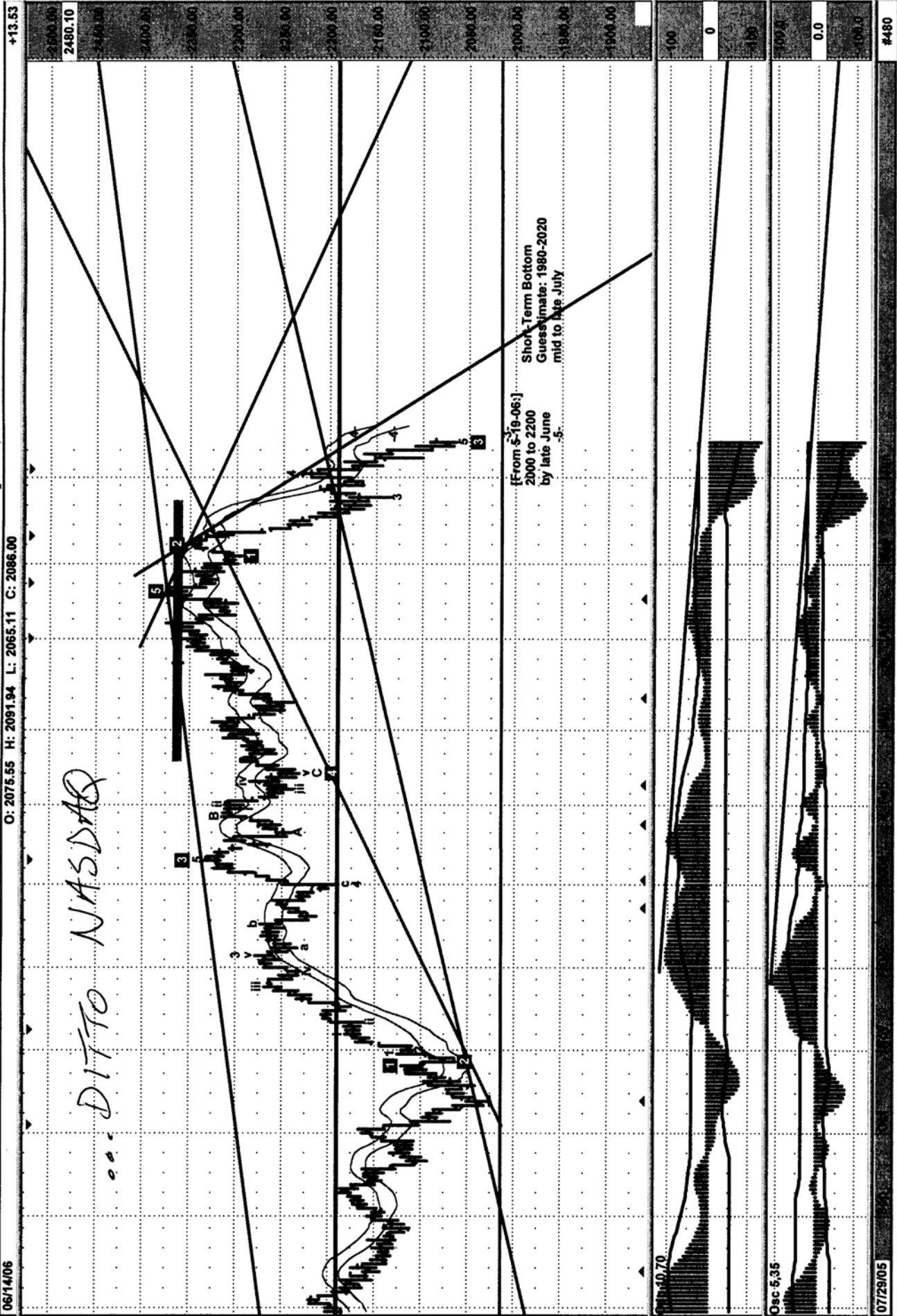
S13

01/04/06

#789

6-14-06: OTC hits 2065 intra-day... targeting further downside into July earnings... 1980-2020 by mid July

*OTC - NASDAQ Composite, Daily - Advanced GET ©2006 Trading Techniques, Inc.

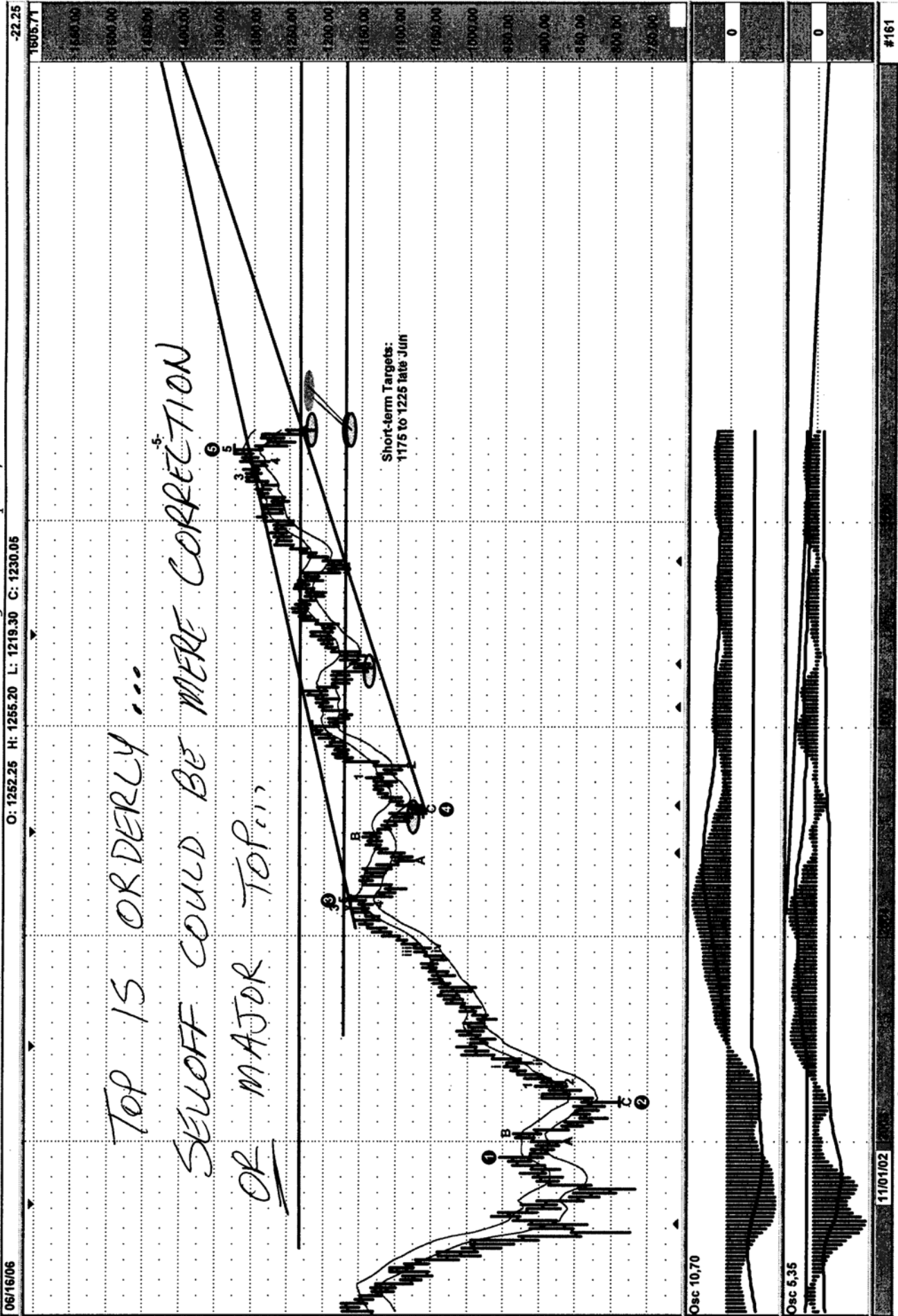


514

So far the stock selloff is sharp but orderly... difficult to say whether it's merely a correction or a major top at this point...

*SPX - S&P 500 Index, Weekly - Advanced GET ©2006 Trading Techniques, Inc.

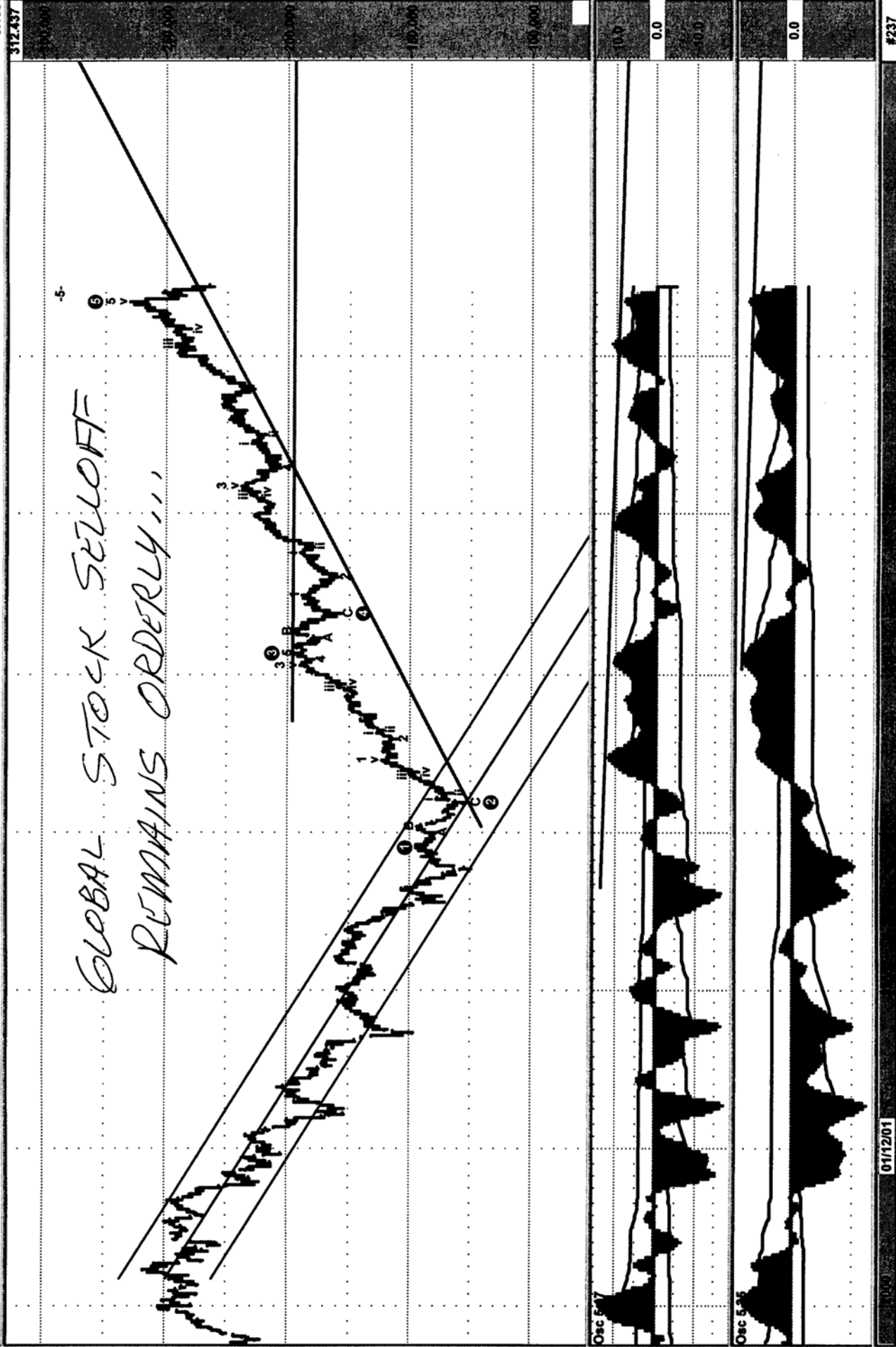
06/16/06 O: 1252.25 H: 1255.20 L: 1219.30 C: 1230.05



511

Ditto the global stock selloff... difficult to tell if it's a major top or merely a correction in an uptrend...

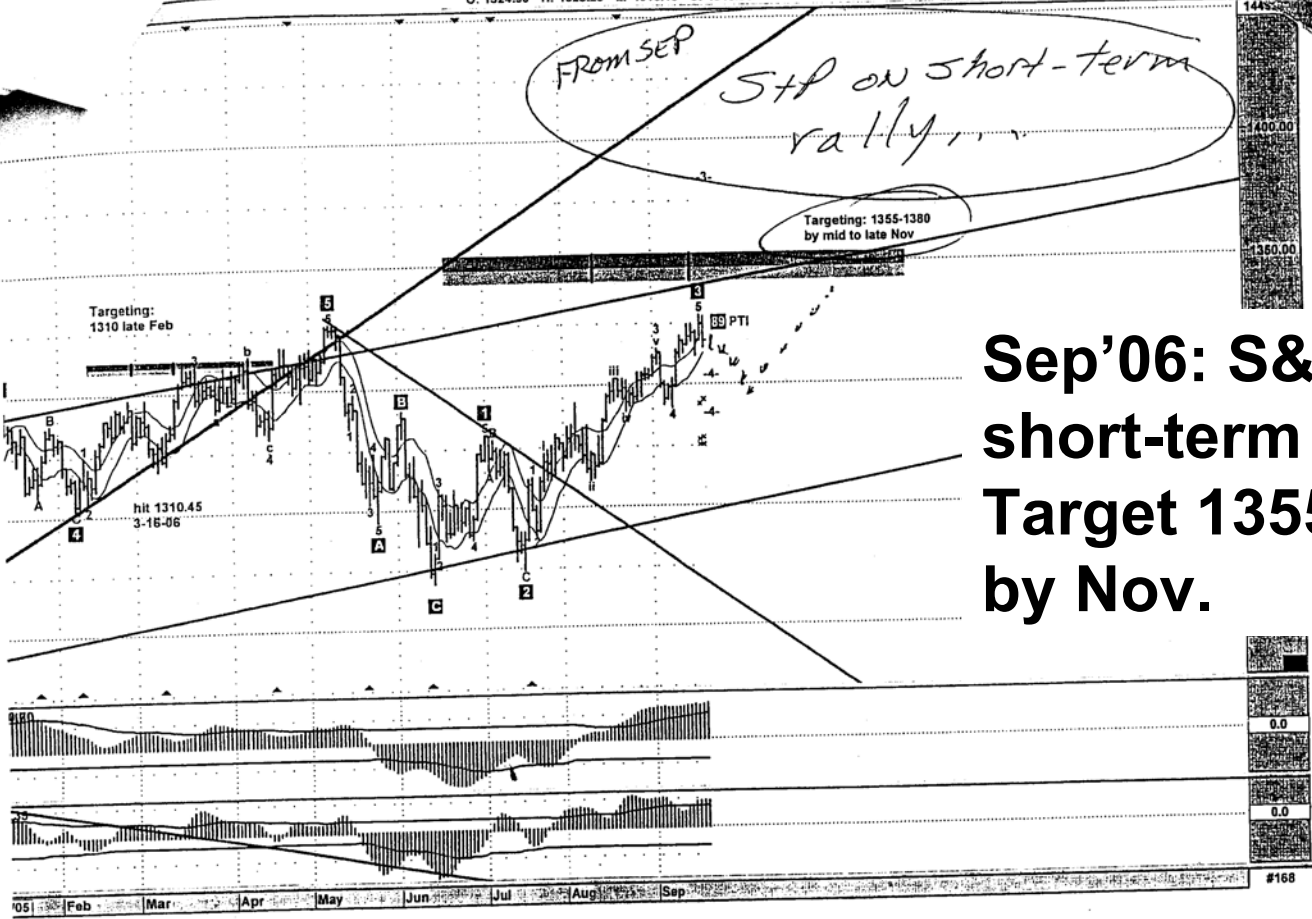
DowJonesWorld - Dow Jones World, Weekly - Advanced GET ©2006 Trading Techniques, Inc.
06/16/06 O: 239.090 H: 239.380 L: 230.750 C: 232.630



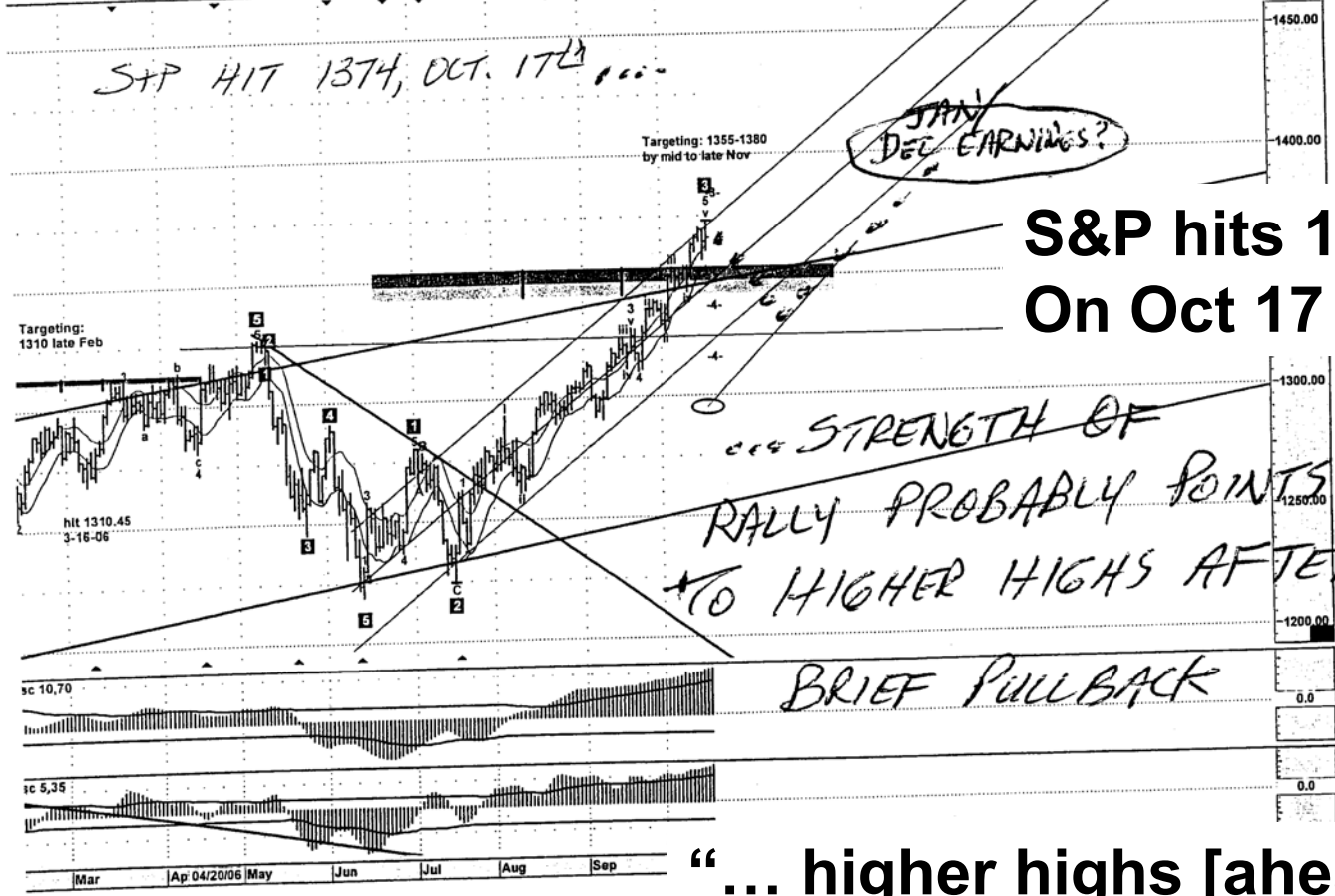
01/12/07

519

Rally signals resume 8-16,
Japan strength a big positive



Sep'06: S&P on short-term rally. Target 1355-1380 by Nov.



S&P hits 1374 On Oct 17

"... higher highs [ahead]"

Oct. 15, '06: Focus on relatively strong Groups that will ride the index into Jan. earnings

Oct. 15, '06

RELATIVE STRENGTH FIDELITY SECTOR FUNDS

<u>STRONG</u>	<u>NEUTRAL</u>	<u>WEAK</u>
Autos	Air Trans	Gold
Retail	Biotech	
Brokers	Med Eqpt	Bus Serv
Chemicals	Paper/For	Home Const
Utilities	Pharma	Cyclicals
Computers		Energy
Software	Reg Banks	Transports
Consumer	Tech	Enviro
REIT	Financials	Energy Serv
Telecomm	Dev Comm	Nat Gas
Food Ag (toppy)	Electronics	
	Home Fin	Health Care
	Insurance	Wireless
	Leisure	Ind Mtrls
		Med Delivery
		Media
		Network Infr

27

S&P ON COURSE FOR UPTREND INTO JAN EARNINGS SEASON

up-trending supply
critical technical

12-13-06: S&P on course for uptrend into Jan earnings

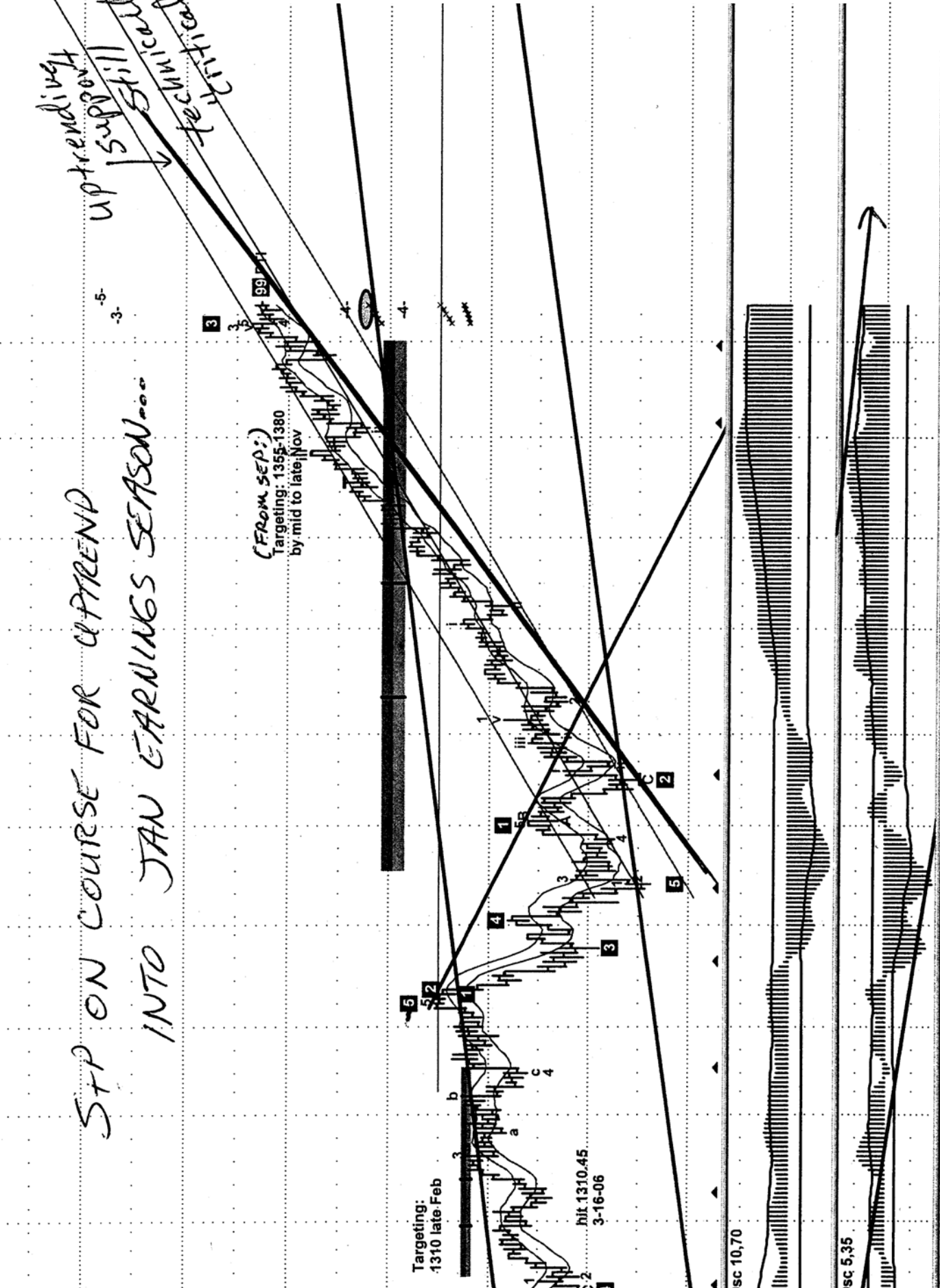
(FROM SEP:) Targeting: 1355-1380 by mid to late Nov

Targeting: 1310 late Feb

hit 1310.45 3-16-06

sc 10,70

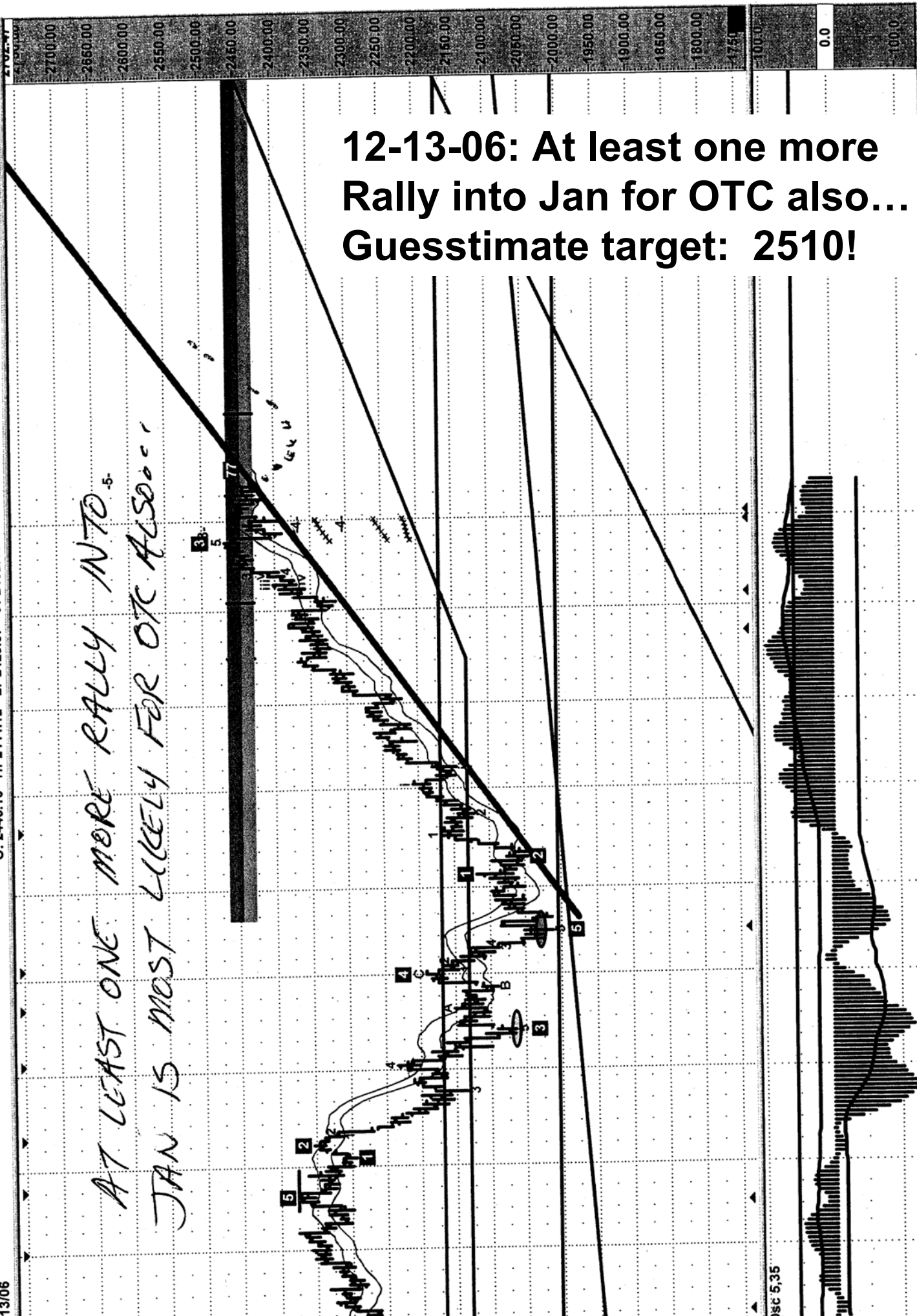
sc 5,35



24

AT LEAST ONE MORE RALLY INTO
JAN IS MOST LIKELY FOR OTC ALSO

12-13-06: At least one more Rally into Jan for OTC also...
Guesstimate target: 2510!



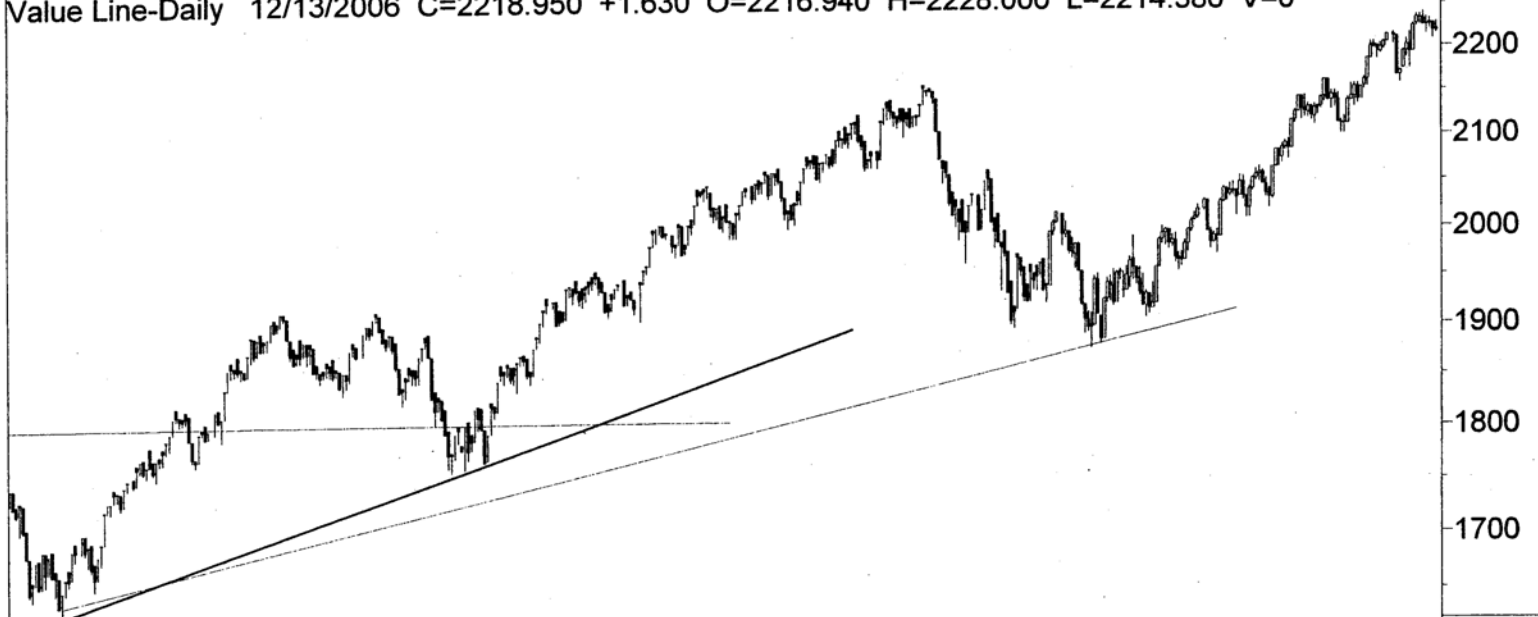
21

12-13-06: Big reason to be bullish: Strength of the Broad Market vs. S&P

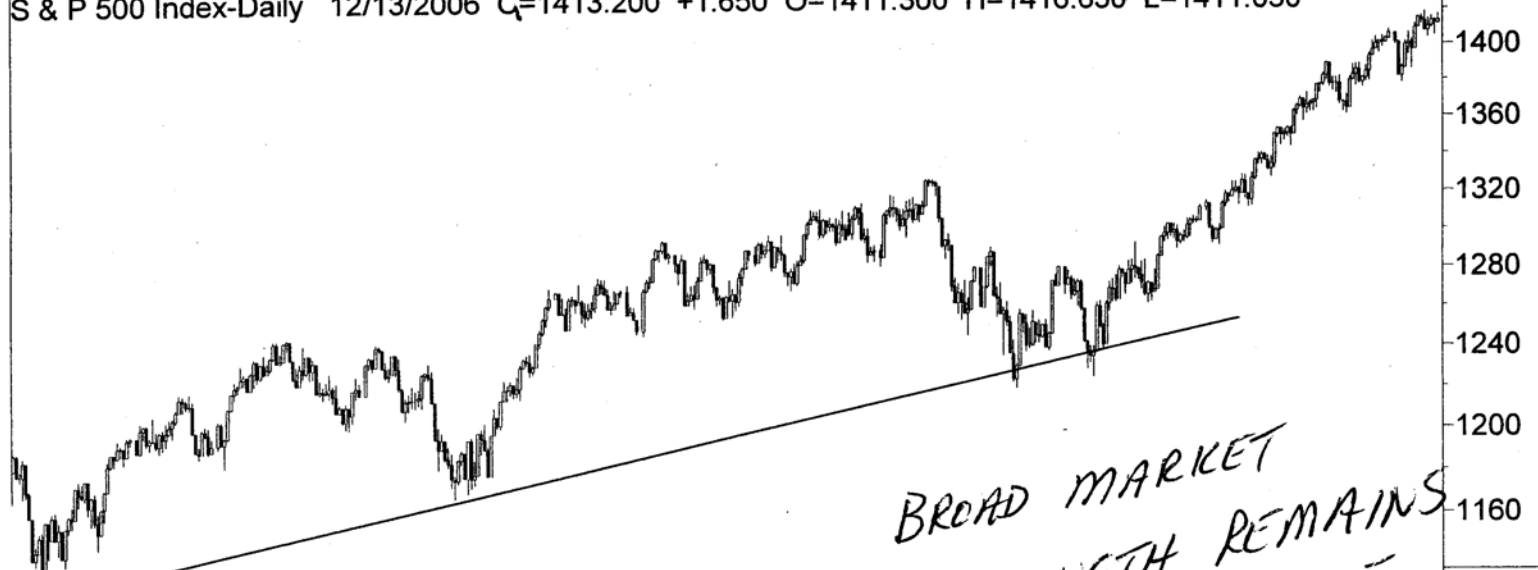
04/07/2005

1/13/2006

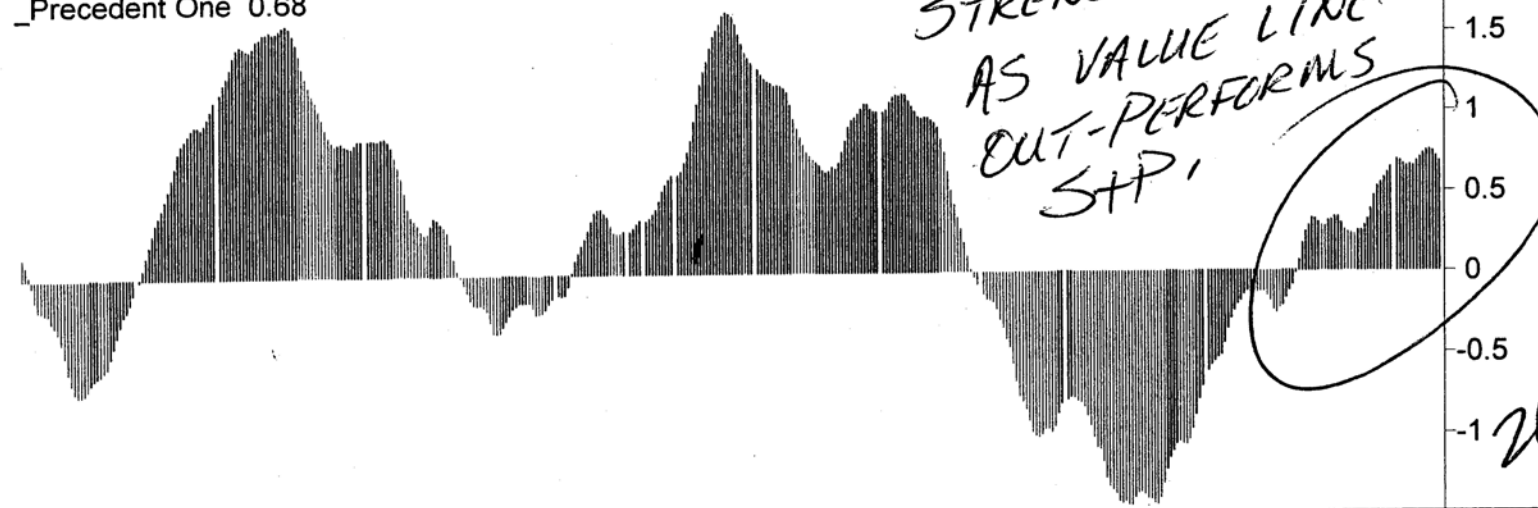
Value Line-Daily 12/13/2006 C=2218.950 +1.630 O=2216.940 H=2228.000 L=2214.380 V=0



S & P 500 Index-Daily 12/13/2006 C=1413.200 +1.650 O=1411.300 H=1416.650 L=1411.050



_Precedent One 0.68



*BROAD MARKET
STRENGTH REMAINS
AS VALUE LINE
OUT-PERFORMS
S&P*

20

Dec. '06: Momentum remained all season with the strongest groups

RELATIVE STRENGTH FIDELITY SECTOR FUNDS

(121 # 15 Oct/2006 is Nov/Dec)

STRONG

*** Utilities, REITs + Software have remained Very strong! ***

NEUTRAL

Autos 10 Air Trans 11

Retail 10 Biotech 10

Brokers 11 Med Eqpt 0-1

Chemicals 01 Paper/For -10

Computers 11 Pharma 0-1

Software 21 Reg Banks -1-1

Consumer 10 Tech 11

REIT 22 Telecom 21

Financials 00 Dev Comm -1-1

Food Ag (toppy) 00 Electronics -1-1

Home Fin 01 Wireless 00

Insurance 00 Ind Eqpt -10

Leisure 11 Media 12

Network Infr -1-1

WEAK

Gold 01

Bus Serv 01

Home Const -11

Cyclicals -1-1

Energy -11*

Enviro -1-1*

Nat Gas -11*

**: Some ↑ in energy sectors*

LEGEND Relative Strength
 Since mid Oct → Nov ↓
 Very strong +2
 Strong +1
 Neutral 0
 Weak -1
 Very weak -2

(Handwritten signature)

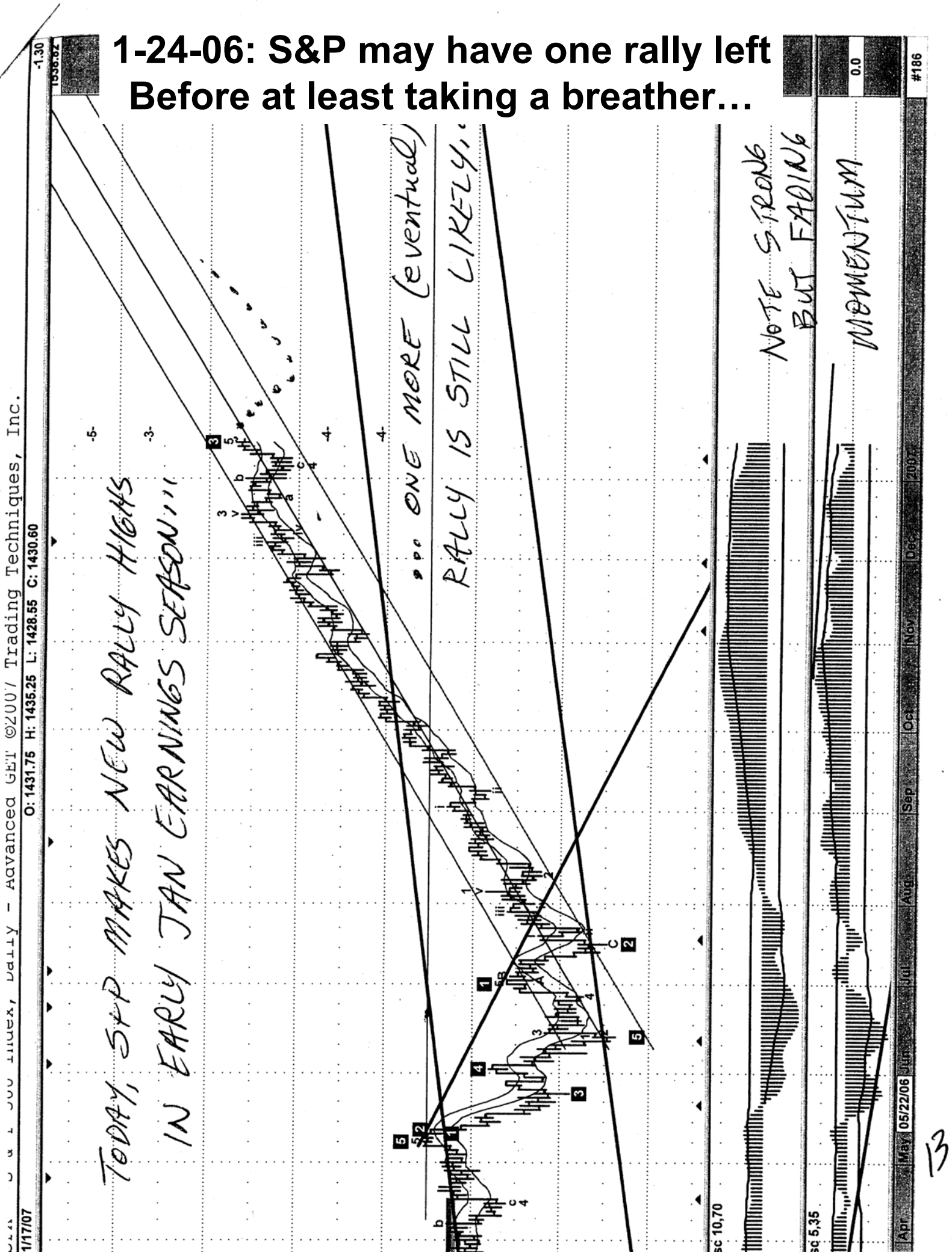
1-24-06: S&P may have one rally left Before at least taking a breather...

1/17/07 O: 1431.75 H: 1435.25 L: 1428.55 C: 1430.60

TODAY, S&P MAKES NEW RALLY HIGHS
IN EARLY JAN EARNINGS SEASON!!!

... ONE MORE (eventual)
RALLY IS STILL LIKELY!!

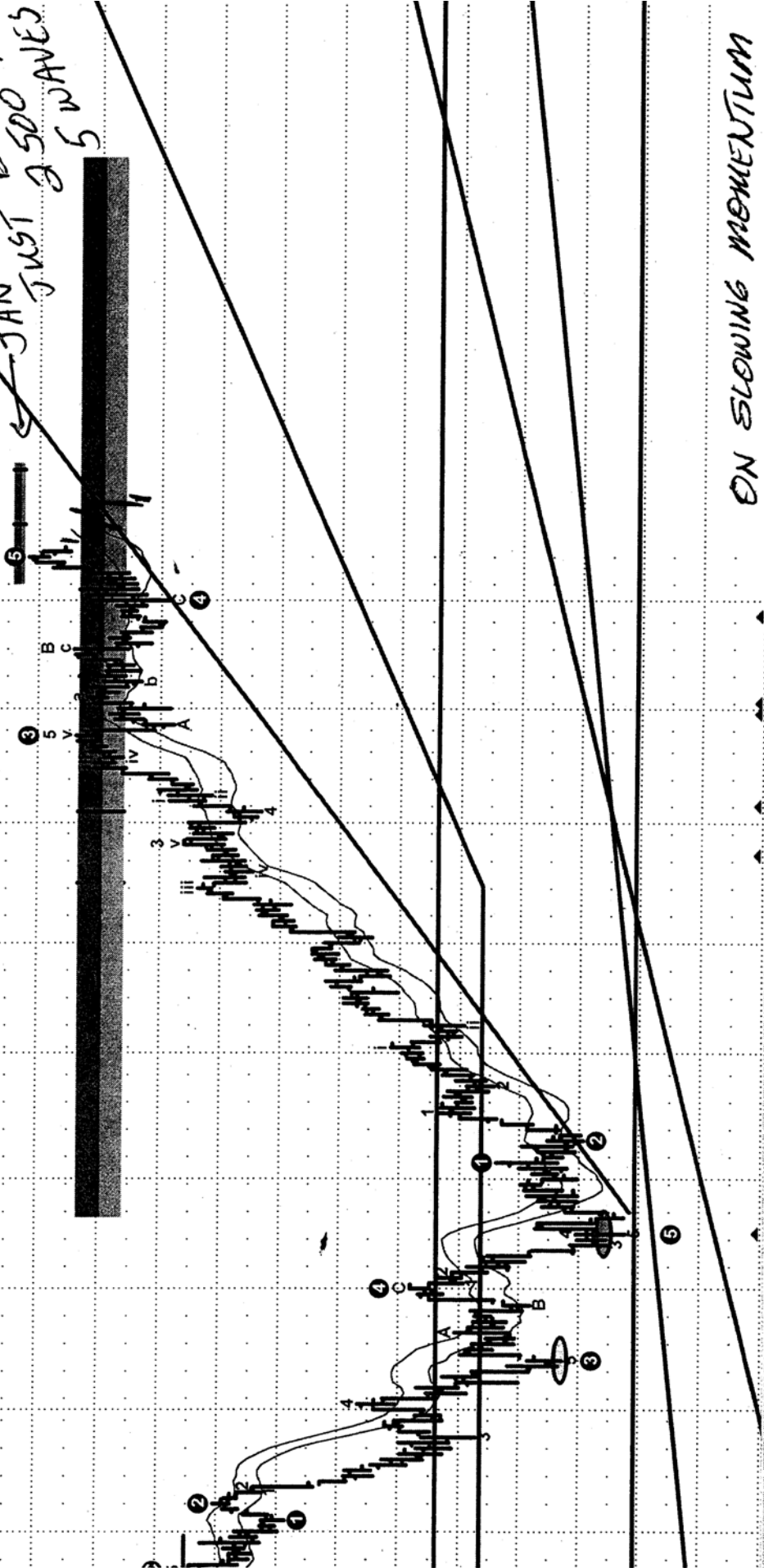
NOTE STRONG
BUT FADING
MOMENTUM



OTC just touches our 2510 target. Now looks topnier today and is more likely to correct before going higher

OTC PATTERN IS SHORT-TERM TOPPY.

JAN RALLY BREAKS IN JUST 2500 WAVES



ON SLOWING MOMENTUM

Wave 4
Diveback confirmation

**High momentum stocks between Jan. and Apr.
earnings may come from today's strongest groups.
[NOTE: Assuming the market doesn't tank]**

**RELATIVE STRENGTH
FIDELITY SECTOR FUNDS**

As of: Jan. 24, 2007

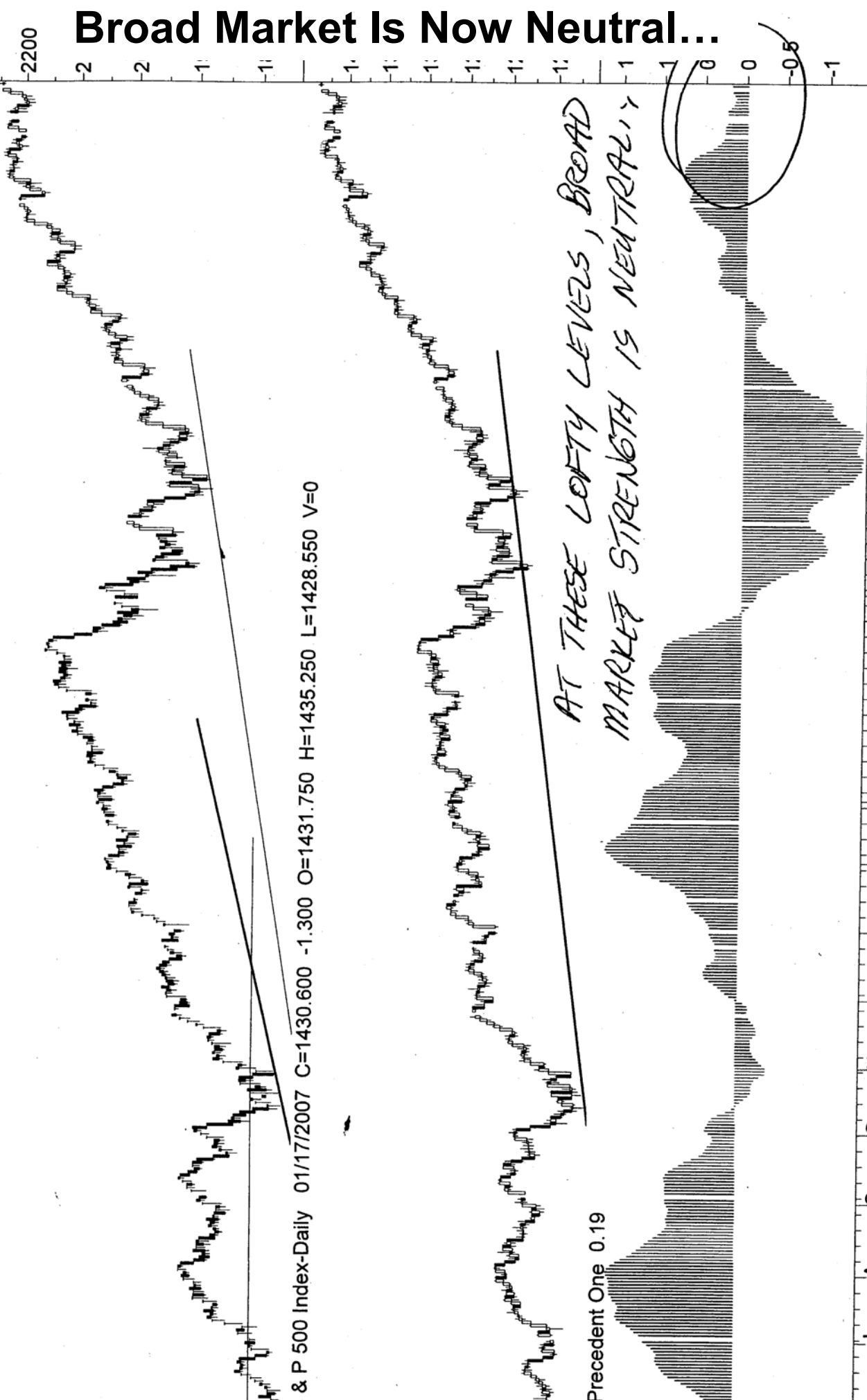
<u>STRONG</u>	<u>NEUTRAL</u>	<u>WEAK</u>
Paper/Forest	Computers	Nat Res
Food/Ag	Air Trans	Dev Comm
Leisure/Ent	Health Care	Electronics
Multimedia	Pharma	Enviro
REIT	Ind Equip	S&L's
Autos	Ind Mtrls	Reg Banks
Chemicals		
Defense		
Medical Del		
Home Const		
Brokers		
Telecomm		
	Bus Serv	
	Biotech	
	Gold	
	Energy	
	Energy Serv	
	Tech	
	Med Equip	
	Fin Serv	
	Insur	
	Network Infr	
	Nat Gas	
	Cyclical	
	Trans	
	Utilities	
	Retail	
	Consumer	
	Wireless	

5/31/2005

(*SPX) S & P 500 Index

01/17/2007

Value Line-Daily 01/17/2007 C=2243.050 -2.150 O=2242.850 H=2251.690 L=2240.830 V=0



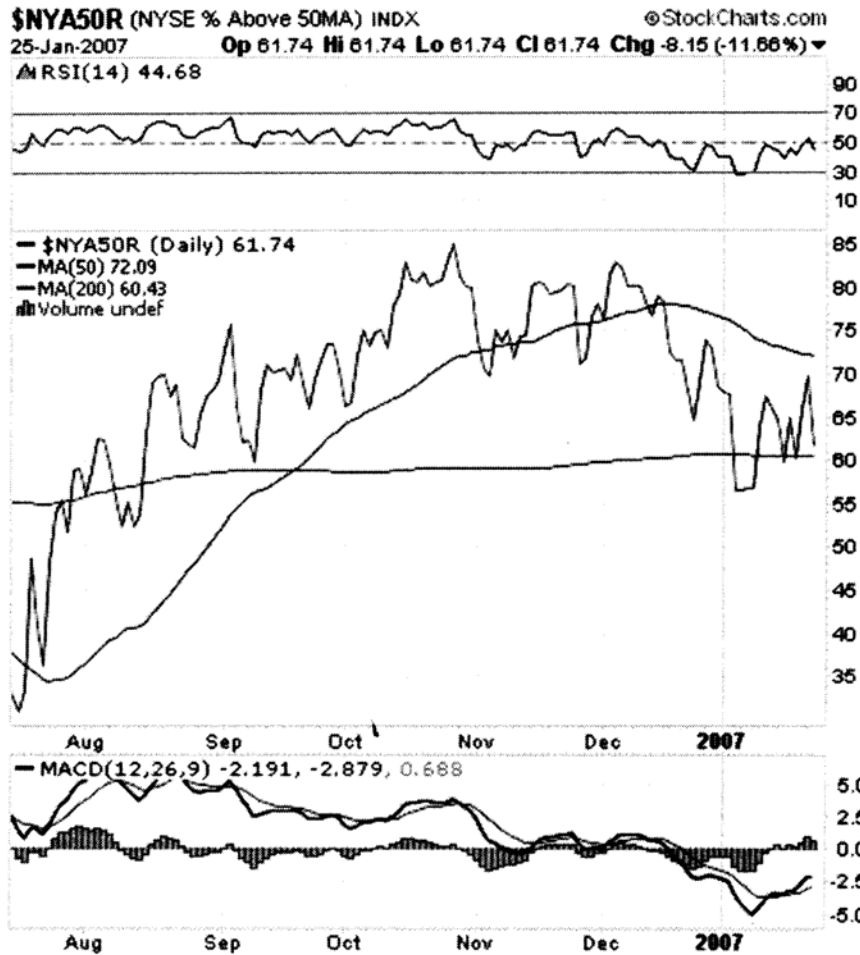
Broad Market Is Now Neutral...

& P 500 Index-Daily 01/17/2007 C=1430.600 -1.300 O=1431.750 H=1435.250 L=1428.550 V=0

Precedent One 0.19

J A S O N D 2006 F M A M J J A S O N D

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Jan'07: Breadth Deteriorates: Stocks Over/Under 50 Day Moving Average turned negative in Dec.

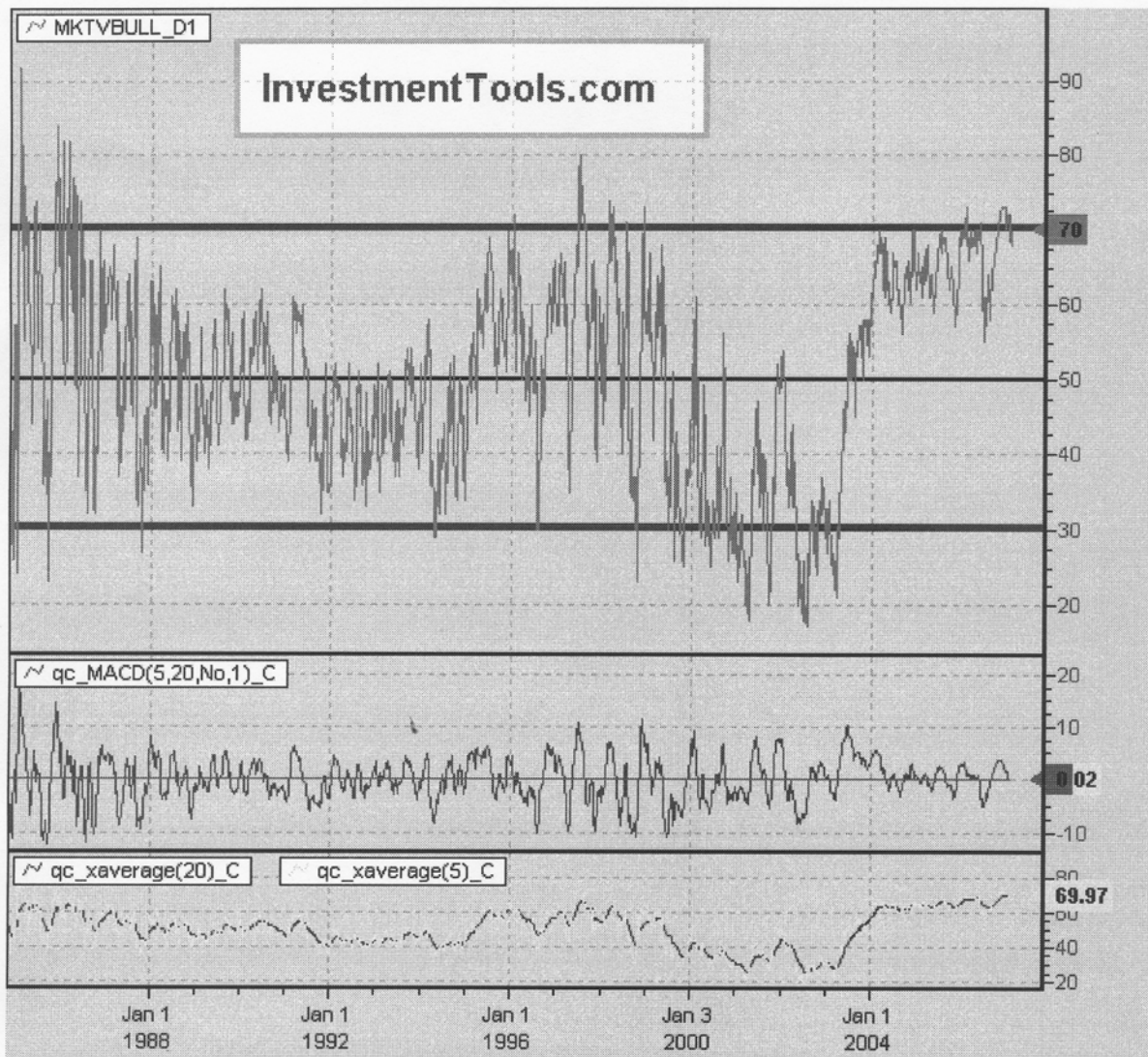


Chart created with NeoTicker EOD © TickQuest, Inc. 1998-2004

Jan'07: Contrary Sentiment Indicators are at cautious levels

Jan. 07: Global Market PE's are not Overvalued

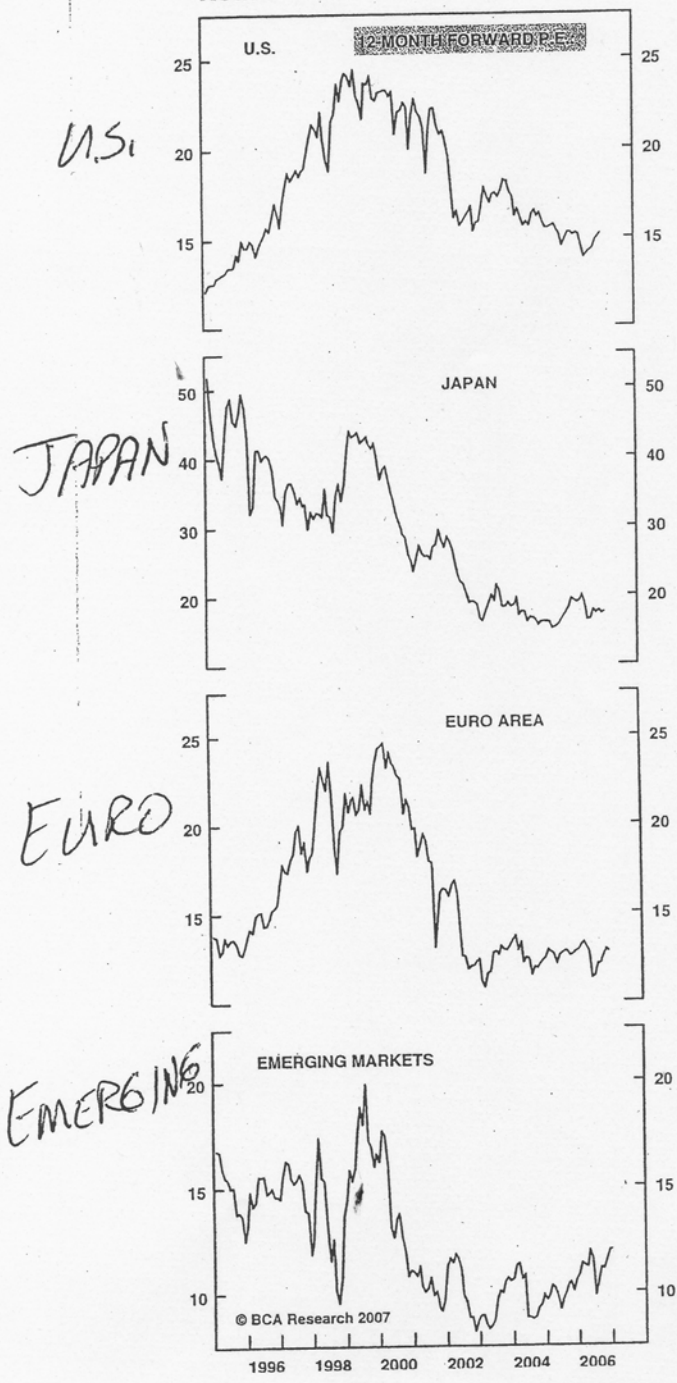
to know for sure what the asset inflation will be. One looks on asset inflations is "Economics and Crashes", by the Kindleberger, and he explains the typical cycle develops. Of course, easy money is the cause, but then there needs to be a displacement. This is a displacement that captures investors' attention about a particular asset then starts out as a rational, fundamentally-based rise in prices, then turns into a mania as investor moves into an irrationally inflated base. The Internet was the catalyst at the root of the tech bubble of the late 1990s. We have the emergence of China and India as economic powers as this decade's end.

With resource prices and emerging equities are the best mania for the years ahead does not deter assets from also doing well in an environment should be favorable in general. Indeed, equities are to be one of the last asset classes to benefit from asset inflation.

Can you say that, given the history of prices over the past several years, you have already noted that equities are the big beneficiary of buoyant conditions.

Equities have of course performed strongly, but there has not been a sense of euphoria — especially in developed markets. Indeed,

CHART 7
Global Equity Valuations Are Reasonable



many investors seem to have fought this equity bull market all the way. Worries about geopolitics, oil prices, financial excesses and imbalances, and most recently the U.S. housing downturn, have all been reasons put forward for caution. Partly reflecting this caution, equities in most countries have lagged the improvement in earnings, and multiples have steadily compressed to the point that valuations are currently reasonably attractive (Chart 7).

Multiples have also been compressed partly because interest rates in many countries have been rising. There is a clear correlation between the trend in interest rates and the price-earnings ratio (Chart 8 on page 16). With the Fed now on hold and expected to cut rates in the coming year, that obstacle to higher multiples will no longer be in place in the U.S. The monetary cycle in Europe is behind that of the U.S., so that condition for higher multiples will take longer to appear there.

Reasonable valuations in the major equity markets compare to stretched valuations in most other assets. For example, credit spreads are very tight in the fixed income markets, yields in commercial real estate have been pushed to historically low levels, and many commodities appear very overbought. U.S. Treasuries are still reasonably valued, but the opportunities for capital gains are limited from current yield levels. On this basis, equities look well placed to benefit from increased investor interest.

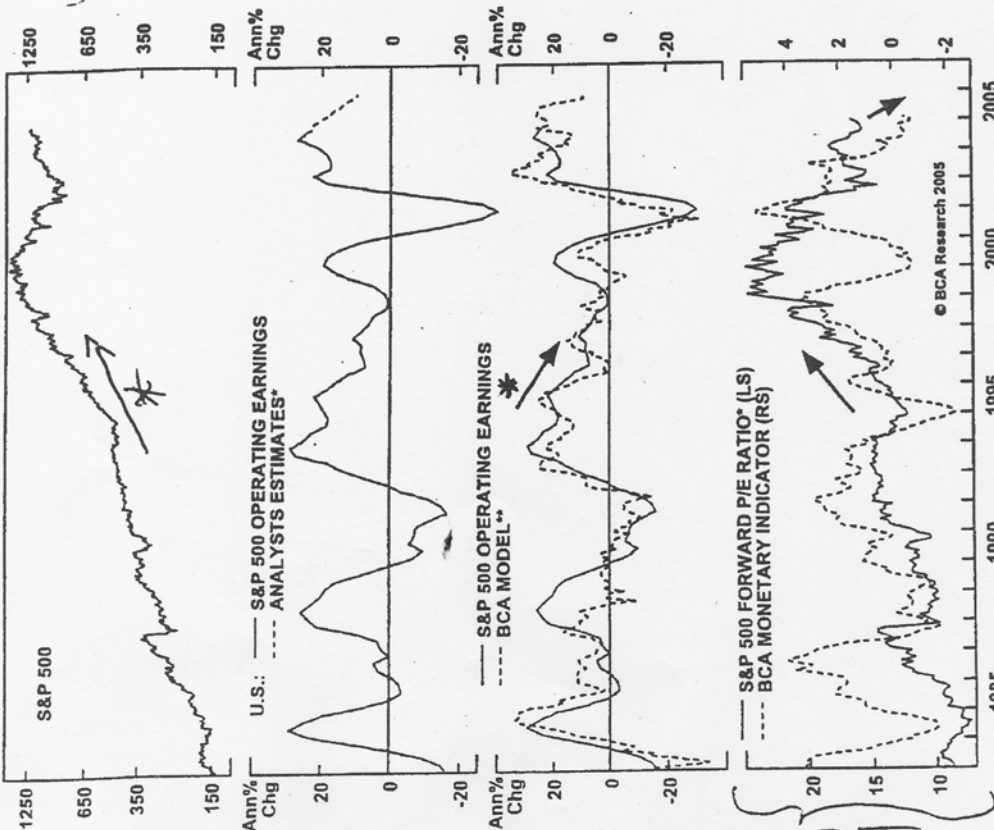
hopeful factoid: markets can rise on slowing EPS growth, but only if the Fed is easing... a possibility in the quarters ahead.

** MARKET CAN RISE ON FALLING EPS GROWTH IF POLICY IS STIMULATIVE*

BCA RESEARCH

CHART 1

A Clash Between Profit Growth and Monetary Erosion



*SOURCE: THOMSON FINANCIAL / IBES
 **BCA MODEL IS A REGRESSION BASED ON THE YIELD CURVE (10-YEAR TREASURY LESS FED FUNDS RATE), UNIT LABOR COSTS, OIL PRICES AND THE DOLLAR

still index upside as long as earnings remain positive, however the A/D low might off

Table 1
 S&P Sector Earnings Growth (%)

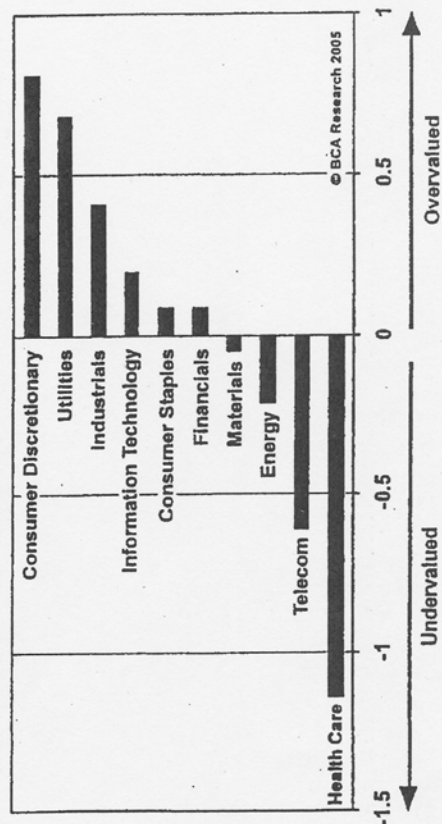
SECTOR	Forward P/E	2004	2005
Financials	12.1	12	11
Energy	13.2	51	-4
Utilities	14.7	0	13
Materials	14.9	73	24
S&P 500	16.1	19.4	10.5
Telecom Services	16.2	-9	5
Health Care	17.2	10	9
Consumer Staples	18.1	10	10
Industrials	18.1	19	18
Consumer Discretionary	18.5	24	14
Information Technology	21.5	43	13

Source: Thomson Financial / IBES

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Table 1

U.S. Equity Sector Valuation



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useful

down