

Business Cycle Trends

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BCT

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Programs

BC3 DOW (Dow Jones Industrials Stock Index cash)

Position	Entry Date	Price	Exit Date	Exit Price
Out	11/7/2006	12168	1/2/08	13043

Expectation: Bearish for 2008.

Strategy: Buy only. Follow 3 yr Business Cycle trend for long term trend following.

Market: Use ETFs such as Proshares.com or correlating funds. Reversals could be used for hedge for risk protection of a portfolio. BC3 has 512% cumulative gain since 1991 with no leverage. 87% accurate. Reduced risk during 2000 to 2002 bear market.

BC1 DOW (Dow Jones Industrials Stock Index cash)

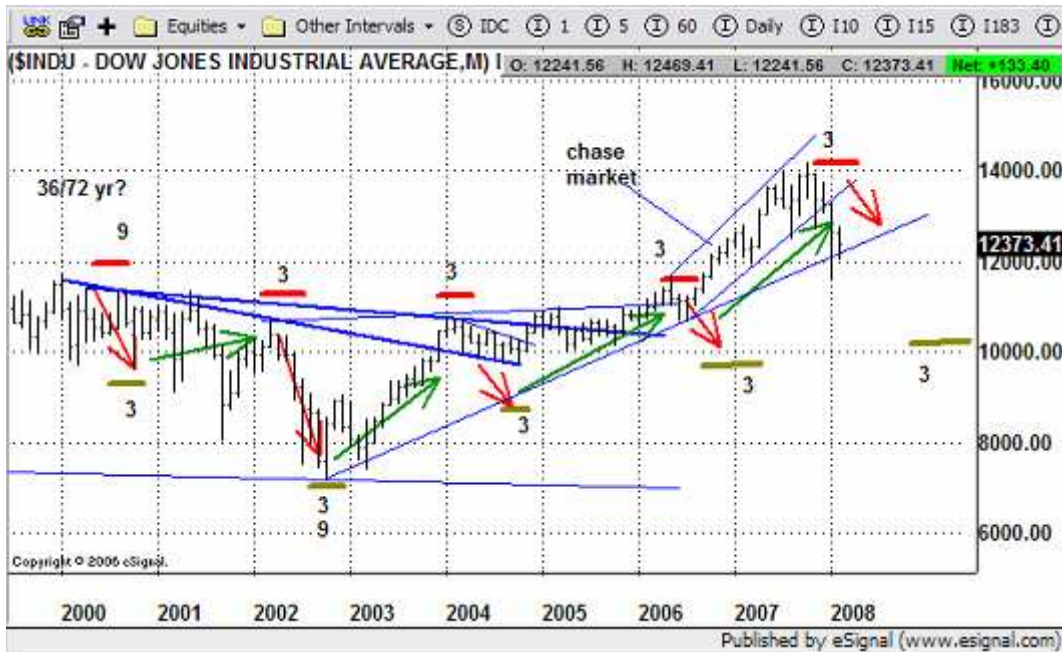
Position	Date	Price	Exit Date	Current Price
Bullish-long	1/2/08 sold	13,043	1/31/08 bought	12,650

Strategies: Buy only, long and short and short term hedge (sell only). BC1 follows a trend that is similar to model Level 1 intra year and intra 3 yr Business cycle trends. An algorithm is used to create a trend reversal price. Goal is for 3 trades per year but could range 2 to 6 per year dependent upon trend volatility. Reversals could be used for risk protection of a portfolio. Contact us for further information. Long and short performance was +13.8% as of end of January versus a loss for a buy and hold from April 2007. +5% for buy only for same time period. Research has suggested the program sold ahead of 1987 crash and 1998 mini crash and was out of the market 25% of time from 1998 into 2007. And during that test period the program slightly out performed a buy and hold strategy. Performance such as this suggests it was out of the market (not long) during times of poor stock market performance.

Stock Market Analysis

Opinion summary:

- Multi decadal trends are up from 1974 and 1932. These trends reversed in 2000 for the NASDAQ 100 and should not reverse to bullish until early next decade. For some indexes such as the DOW, SP500, Russell 2000, these trends should reverse 2009 to 2011 for a bear market into early next decade.
- Decadal trend is up from 2002 and due to end 2009 to 2011. A bear market should occur early next decade.
- 3 yr Business cycle trend is down from December 2007 and due to bottom early 2009 for the Dow index.
- Level 1 trend forecast is bullish from January 2008 low into a top due March 2008 and may extend into May 2008. The Level 1 occurs 2 to 3 times per year for the Dow index.



The monthly bar chart exhibits 9yr (decadal) and 3yr (intra decade) business cycle fluctuation. Research suggests the decadal trend should still be up despite the sub prime mortgage collapse and related risk for a recession this year. However, the 3yr business cycle (may relate to the Kitchin economic cycle) in terms of price for the Dow stock index should be down into early 2009. It is feasible that the worst of the cycle's bear market to be seen this year.

The stock market is due for a major multi decade cyclical bear market for early next decade. Statistics suggest a decline of 70% to 90%. However, the 2007 price that was higher than the 2000 cyclical high price complicates the forecast. There is chance for the stock market to rewrite 300 years of statistic with only a 40% perhaps to 60% decline. I believe the global economy may very well assist with this reduced bear market. The current sub prime fallout and recession fear may lend a hand of creating a more lengthy correction of economic excess so that when the real recession and real cyclical bear market strikes there will be less down side potential.



The weekly bar chart shows Level 1 and 2 trends (L1/L2) which are intra year and intra 3yr business cycle trends which are referred to as intermediate trends. The chart exhibits potential support and resistance trend lines and timebands (short horizontal red/green lines) that are forecasts as to when to expect a trend reversal. Models forecast a rally into a L2 top due in March. If the low of January is L2 instead of L1 then odds increase for a weak rally, earlier than expected top and for a lower price by late March or some time April. A L1 top is expected around May of this year. A summer rally may be feasible but rallies should be corrections within a down trend for 2008. The Russell 2000 index may be able to bottom this July while the Dow is at risk of not placing a bottom until the seasonal low of September/October and ideally early 2009.

- Seasonally September and October have been the worst performing months for the stock market. November and December can be some of the best of performing months.
- Investors may want to consider insuring portfolios if the Dow trades under the January low. Although the January low did meet some of the price projections there is still potential for 11,000. I doubt the Dow will be able to trade over 13,800 this year.
- L1/L2 trend analysis and BC1 program bearish reversals could be used for timing of placement of hedge or insurance. Bullish reversals may be an opportunity for bargain hunting but one must keep in mind the risk involved with the 3yr cycle trending lower for 2008.



Commodities

The monthly chart of the Goldman Sachs Commodity index exhibits the 9yr and 3yr business cycle trends. The decadal trend forecast is up from the 2002 bottom (related to the 2001 recession) and should remain up into 2009 to 2012. Current forecast suggests the top will not arrive in 2009 as a 3yr cycle bottom is due that year.

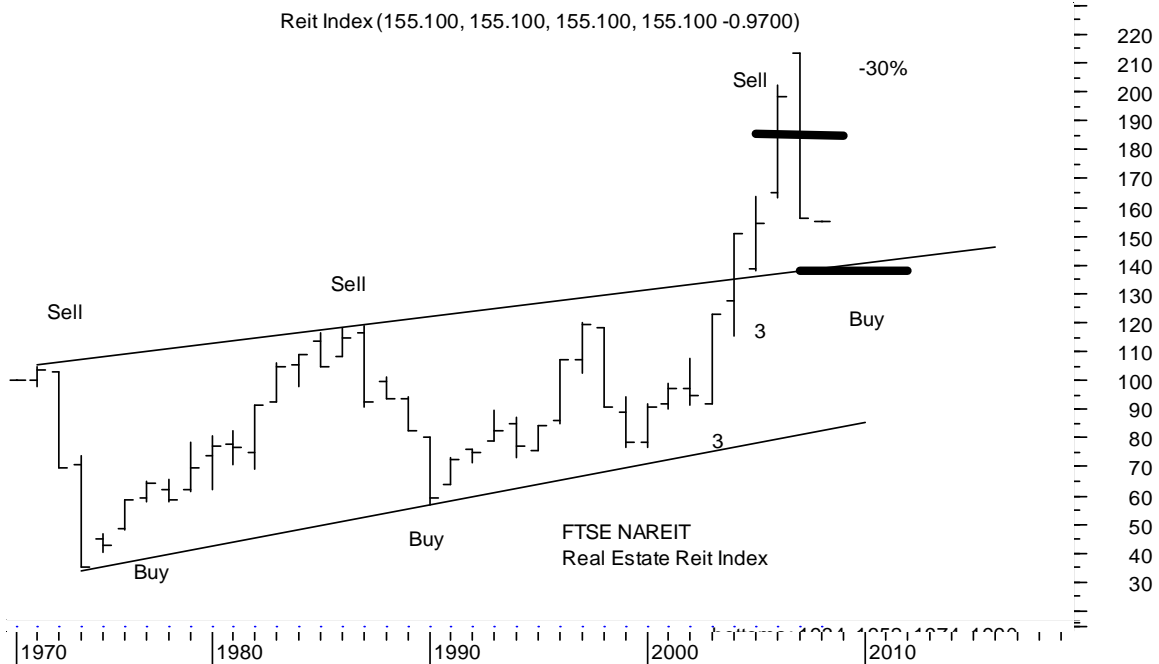
The 3yr business cycle topped in 2003, bottomed 2004 or 2005, topped in 2005 and bottomed January 2007. Trend has clearly been up from January 2007. Models warn a top may arrive for the 3yr business cycle top as soon as January 2008. The 3yr cycle trend does not have to top until August 2008 subject to revision. Current best guess forecast is for higher price for 2008 but we should consider the chance for a top any time now into summer 2008.

Commodity indexes are mostly comprised of energy markets. So a specific top or bottom forecast for intermediate and long term trends may be more useful for the energy sector. Gold is due for a long term top from April to August of this year. I am still bullish the DBA fund (agriculture), UNG fund (natural gas) and I am leaning toward neutral for the DBC a fund with metals, energies and agriculture.

- I think investors should be more concerned of over valued commodity based stocks rather than actual commodities as over valued.
- The multi decadal trend research remains bullish commodities for the next 20 years but there will be decadal and intra decadal and intra year corrections.



The DBA and UNG are Exchange Traded Funds (ETFs) that are bought and sold on stock exchanges. The funds invest in commodity futures not stocks that are related to commodities.



Real Estate

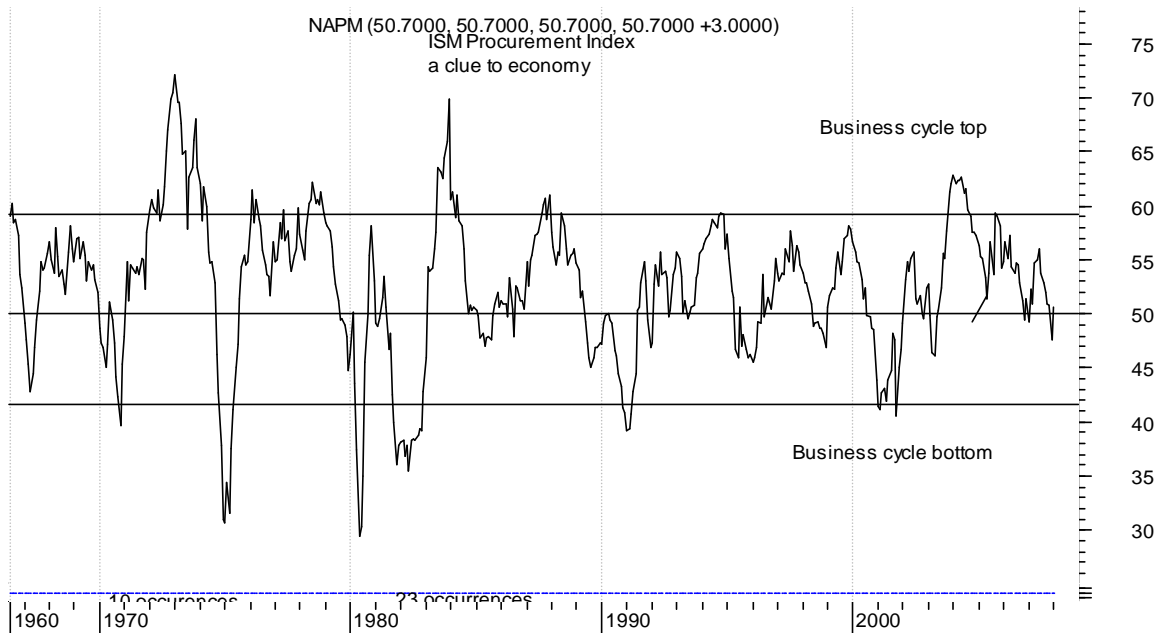
Real estate in terms of the National Real Estate Investment Trust index was due for a peak late this decade. The higher horizontal bar is a timeband for the expected decadal cyclical top. That band was placed on this chart during 2006. Note the sharp reversal in 2007. The models for this index are now bearish into early next decade. Research has shown an important business trend that has been intact back to the early 1800s.

- In my opinion this index from time to time can fluctuate from stock market influence more than from the actual real estate market.
- Models favor a 3yr business cycle bottom some time this year. This allows for recovery for 2009 and perhaps into 2010. And then the final decline for early next decade bottom. It is feasible for the index to bottom 2008/2009 at a lower value than the bottom due early next decade.
- I think there is chance for real estate to bottom ahead of the stock market and I believe the trend is up for the next 20 years.
- Note the decline in 1973-1974 which correlated with a similar decline for the stock market and as inverse of commodities specifically grains.

Interest Rates



Interest rates in terms of the 30yr Treasury Bond are due to turn higher from a bottom placed early this year. Although the models forecast a decadal peak due 2009 to 2010 which should be important to create “very high rates” it is my guess the peak will come in at 6% or lower. A decadal bottom occurred in 2003 and is due again early next decade in correlation with the future recession. What is unclear is whether next decade’s interest rate bottom will be lower or higher than this decade’s bottom. If lower then I would assume a more severe recession than that of 2001-2002 and if higher then I would assume as not as severe of a recession. Regardless of which decade will be proven to place the more important low rate my 30 to 40 year forecast is for higher interest rates.



The Economy

I use the Managers Procurement index for an economic indicator. So far this decade I think I have correctly forecast the important trends. I believe 2005 is the last 3yr business cycle for this indicator which I think represents macro economic sentiment. For the year of 2007 the models were off a bit in that the trend lasted longer than expected but within model parameters. The forecast calls for a business cycle bottom during first half of this year. The forecast suggests improving economy latter half of this year into 2009.

A reading under 50 is said to reflect a contracting economy. One of my favorite economists has stated 45 means a recession. I prefer 42 or lower for the primary recession per decade. The rating for January surprised most economists/analysts with a sharp recovery above 50 when they were expecting a still lower value. Some were expecting a 45 or lower and to call the economy in recession. I believe if the US is in recession it is a secondary recession and more related to the paper world rather than the material world (commodities) and within the paper world it is related more to the financial sector.

US Dollar

The US dollar is due for a 3yr business cycle bottom early this year. The dollar is also due for a decadal (9yr) cyclical bottom. In fact it is getting late for such a reversal. I think the dollar will rally for 2009 and may rally for latter half 2008. Although most decadal cyclical bull markets create a large change in the dollar I feel a major economic change has occurred for the dollar in relation to the global currency trading community. I feel that multi decadal cyclical trends are bearish the dollar at least into next decade if not through the 20 to 30 year commodity bull market. None the less a rebound is due for the dollar now and through 2009.

A word about business cycles.

My definition of a long term business cycle is for a trend from bottom to bottom to last more than a year. Research has produced a variety of cycles that can be found in many commodity, stock and financial markets. The 3yr cycle has been known to fluctuate for some markets by 20% to 60% decline to 20% to over 100% increase of price. Since the trend of this cycle can last 5 to 25 months it is understandable why some businesses and investors find a good year followed by a poor year.

The 9yr cycle has been known to trend for 5.5 years on average (8 to 13 years bottom to bottom) and create a price increase as much as a few hundred percent and price declines of near ninety percent. For some commodities multi decade cyclical trends have related to several years of price increase and by as much as over 1,000%.

Past results are not necessarily indicative of future results. This report is for information only.