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Past results are not necessarily indicative of future results.

LTC3 (Long Term Cycle 3)

Report: 6/28/07

Stock market (in terms of Dow index)

Super long term status:

- Trend is up from the 1932 bottom of the 72 year business cycle. This trend is due for a bottom early next decade which should cause a bear market of 40% to 90%. Due to price action of stock indexes since 2006 and the global economy plus professional risk management I do not favor the 90% extreme. I will discuss more of this super trend before end of decade.

Long term status:

- The decadal business cycle trend (9 yr) is up from the 2002 bottom. The trend can end as of this year in that this year would make for the minimum number of years since the 2000 top. I believe a top this year would be with low probability. Majority of cyclical tops past 100 years have not been of the minimum number of years. Ideally, next year is the first year for a top for this decade and the decadal top (end of trend) does not have to occur until 2011 although I favor 2010 the latest. Best forecast is for decadal trend to remain up into 2008 but risk is increasing to the investor as of this year.
- The 3 yr business cycle trend is up from 7/2006 or 3/2007. A forecast made last year for the next peak to occur in early 2008 is still the best forecast. I have come up with an alternate forecast that suggests the last 3 yr tops were not in 2004 and 2006 but one year later. I view this forecast with low probability. A guess would be at 20%. This forecast allows for a top this year and can arrive now. The forecast for 13,600 for this 3 yr cycle trend has been proven correct. And the Dow is experiencing supply problems at this level. I assume the Dow to overcome this level but such action may wait until the seasonal rally due in November-December. Or even next year. 14,000 to 14,400 is the next target range if market can overcome the 13,600 resistance. Maximum potential is to just over 15,000. A price of the Dow index under 12,000 should cause concern the long term bullish forecast is in jeopardy.

LTC3 Dow index program:

- A correct purchase was made by the program following the 2002 bottom for the Dow stock index. A sale was made in early 2004 for a gain.
- A correct purchase was made in late 2004 with related sale in May 2006 for a gain. Risk was reduced ahead of the sharp down turn into Jul 2006.
- The models correctly called the July 2006 bottom as a long term business cycle bottom for the Russell 2000 and other indexes. The models failed to do so for the Dow and the program was left chasing after the market once it was realized that the Dow was not going to trade lower during the seasonal bear months of

September and October. Missed out of some profit. None the less the program still holds the position with impressive gain of 1250 Dow points as of writing this report. (About \$6,200 for the mini Dow futures.) Current forecast is to hold until the next 3 yr business cycle trend top.

- This program trades a buy only strategy related to only the 3 yr business cycle. I have learned that the decadal cycle trend since 1980 has become the stronger of the two. It may be more profitable to not sell for the program at 3 yr cycle tops if the decadal cycle top is not yet in place and decadal trend is up. This would have been the case with the 2006 sale and repurchase. One could have used the sale recommendation to insure with use of options or other hedge strategy to reduce risk while maintaining a more long term buy and hold position.
- Current performance of the LTC3 program suggests it has out performed a buy and hold position since 1991. This has not always been the case. Risk was reduced during the 2000 to 2002 bear market—a plus.
- Potential investments relating to the program are the Dow ETFs traded like a stock—symbol DIA. And there are several funds that correlate with the Dow. For those interested in adding leverage there are funds with double performance including double risk. Some of these can be found even as ETFs and traded during the day. Proshares.com is one site for information. And then there are the stock index futures and there is a mini Dow futures.

Level 1

- The primary reason to write this month's report is that the Dow index is within a timeband for a L1 top.

I believe the L1 trend is one of the more important trends intra year and intra 3 yr business cycle. In fact the models use this trend to track and time the 3 yr cycle trend. So if there is to be a long term top for the market a L1 will occur at the same time. The L1 trends can be volatile and can be with coincidence with the bearish seasonal of poor stock performance during September to October. And some L1 trends have exhibited minimal negative impact.

The L1 discussion provided by the LTC3 service is to provide additional information and risk management opinion while following the 3 yr long term trend. Past performance of put option recommendations have been profitable and not interfered with the long term position. I have tracked since 2005 specific mini Dow and SP500 puts.

The Dow



The weekly chart of the cash Dow stock index is labeled with L1 trend fluctuation. I also show a L2 bottom placed a few weeks ago as last but important support. The L2 is less important than L1 but the market respected that low as of this week by not trading under that level. I have drawn tentative trend lines that should be watched for resistance when demand subsides and supply increases.

The horizontal thick lines are best guess timebands for when to expect L1 top and related bottom. The bottom timeband suggests an early seasonal bottom in August. This may complicate the idea of a seasonal decline in September or will cause complications for the models in terms of tracking intermediate trends into yearend. These lines were not drawn to reflect specific price levels. So do not use them for price targets. If the long term trend is to remain up into yearend at least then I believe the coming L1 trend will not take the Dow much under 13,000. However, I like to think the L1 signals are not about how much price movement but more about increasing risk. Anything can happen from a L1 top. A L1 trend can lead to an insignificant move or a crash. Depends upon degree of bearish news, emotion of investors and whether or not a more important top or future bottom is to occur.



I believe this is the first time I have included a daily chart within these reports. I think it is important to make note of the poor performance of the index this month. Price is rolling over—down. Market is struggling with the 40 day average which was support earlier this year. I have drawn two lines from March into June that show bearish LPD patterns—Last Point of Demand. This pattern is one of price breaking below a previous up trend, rallies back to or close to the line and turns lower. Some times this pattern relates to a sharp decline. My guess is this market has already peaked for the L1 trend but models can not seem to find the peak. So unless the Dow stock index perks up within the next few weeks the models are probably running late. It may be that the market is serious about a decline but is within a holding pattern until the model top is in place. I have seen this before in a variety of markets and degrees of importance. My short term models offer a rally by next week but if the current low of June is violated it may best to follow such a break even if proven to be early.

- Trade under 13251.53 Dow cash following next week should be a sign the intermediate down trend is underway if not well underway. If such a violation occurs this week or next it should be viewed as a bearish sign but there is chance for a final rally (short term only) and probably not as high as 13,600.

I will send an email Alert when an official call is made. This could occur on a rally with an effort to pick a top (aggressive) or with additional decline from a suspected top or violation of support (conservative).

Commodities



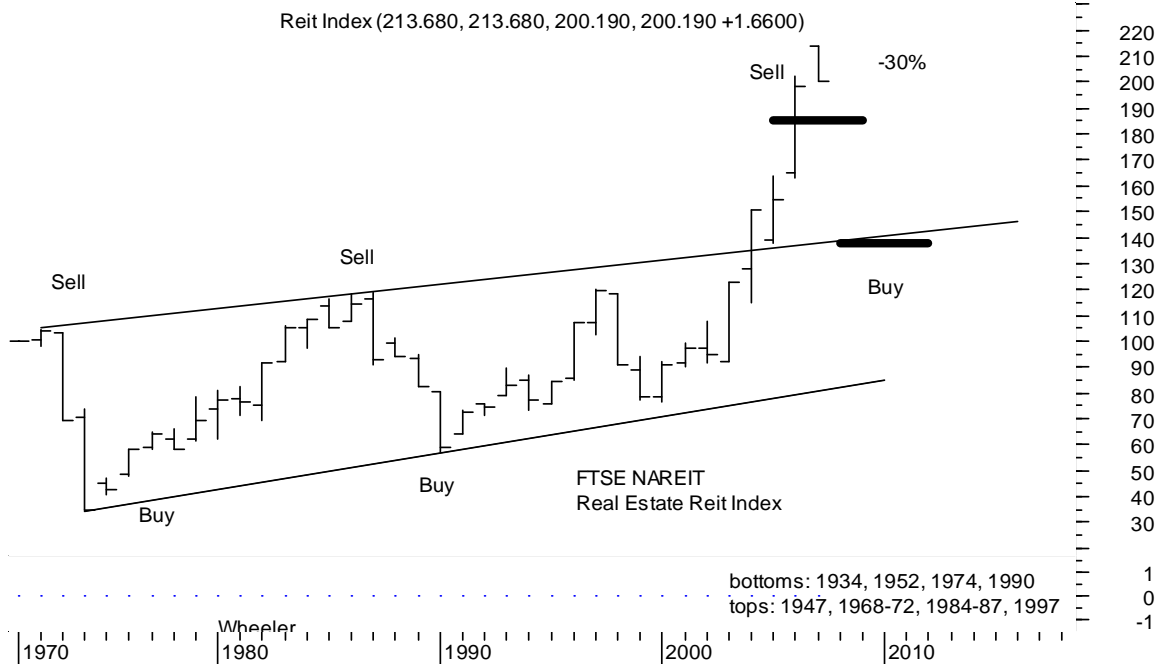
I believe a long term bottom occurred early this year and trend is up into 2008. Current trend is up from January bottom but commodities have been under pressure this month. I think we are seeing a correction within a bull market. The index shown should rebound in July. Energies to make a move next month? LTC3 still holds long term index and fund positions.

Interest Rates



The monthly bar chart of the 30 yr Tbond interest rate is shown with 3 yr business cycle trend turns. I added two trend lines for potential support and resistance. Models suggest a decline in rates late this year and rally for next year. Will the FED raise rates in an election year? Will they lower rates this year? I think the free market may “dip” rates now into late this year. Note the reluctance to continue above the resistance line that directly relates to previous cyclical (business economic) tops. I believe the bottom will arrive within an up trend into next year however. I am not going with idea of economic fallout from sub prime rate/hedge fund fallout. And yet the cycles suggest a chance for a break in rates. I think the decadal trend is probably higher into 2008 to 2010 and will eventually coincide or cause a recession.

Real Estate



Residential real estate peaked as far back as 2005 for some regions but there was lingering strength (higher price but lower rate of change) into 2006. In addition some studies suggest on a dollar volume basis of transactions real estate still has not peaked. The amount of sales were high enough to offset a decline in price. Still good demand and newswires have added some bearish hype. None the less real estate has been well ahead of commodities and stocks this decade and a decadal cyclical top was due mid to late this decade.

I created a model from various real estate indexes with cyclical factors that were tested back to 1800s. I applied this model to the NAREIT index of REITS. Although this index can correlate with the stock market, I found it also related with cyclical cash real estate long term tops and bottoms. The chart shows best forecast for a long term top and future bottom. Price action so far this year exhibits chance for a negative reversal year. The top?

US dollar

I am long term bullish the dollar into end of the decade and bearish early next decade along side a recession. I do not expect a major bull market.

US economy

My favorite economic indicator studies offer net growth into late this year if not into 2008. No recession for remainder of this decade but some sectors the macro economy will be in decline for the official recession.