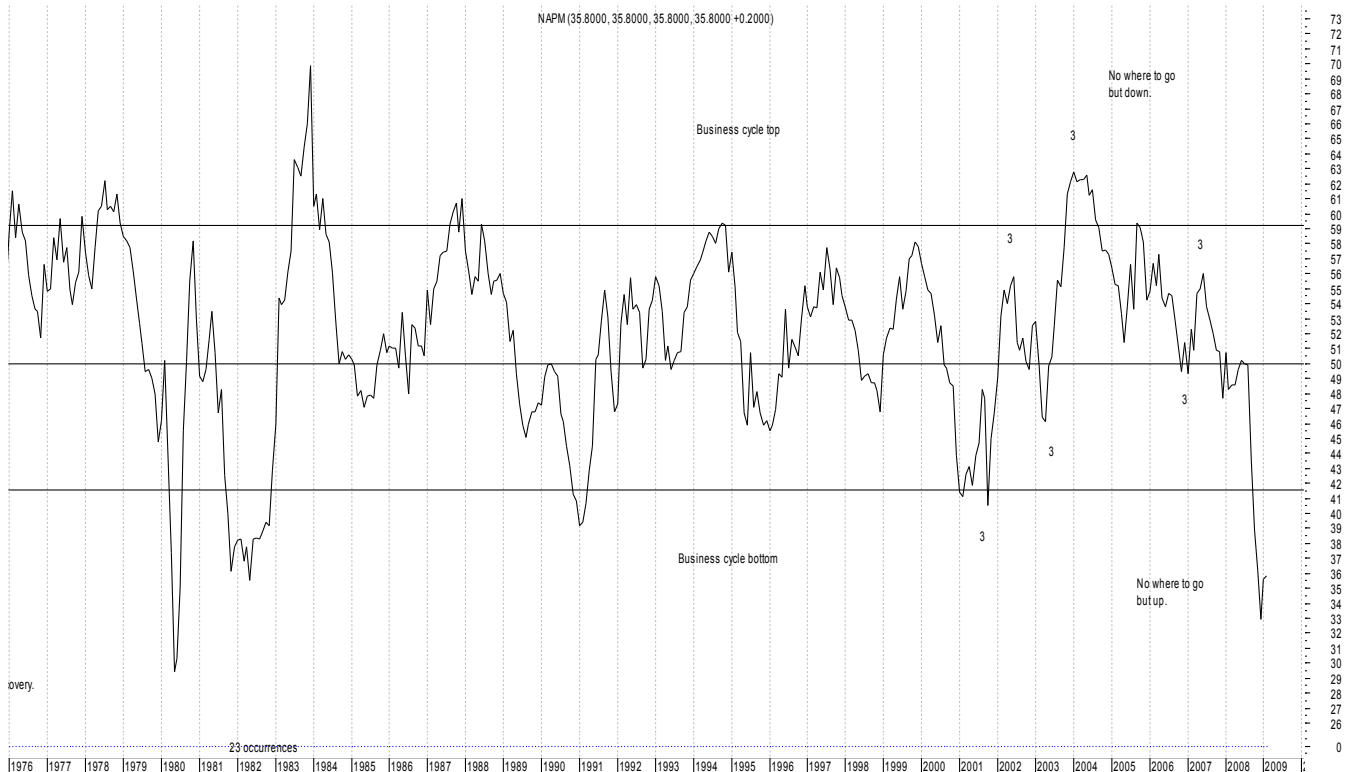


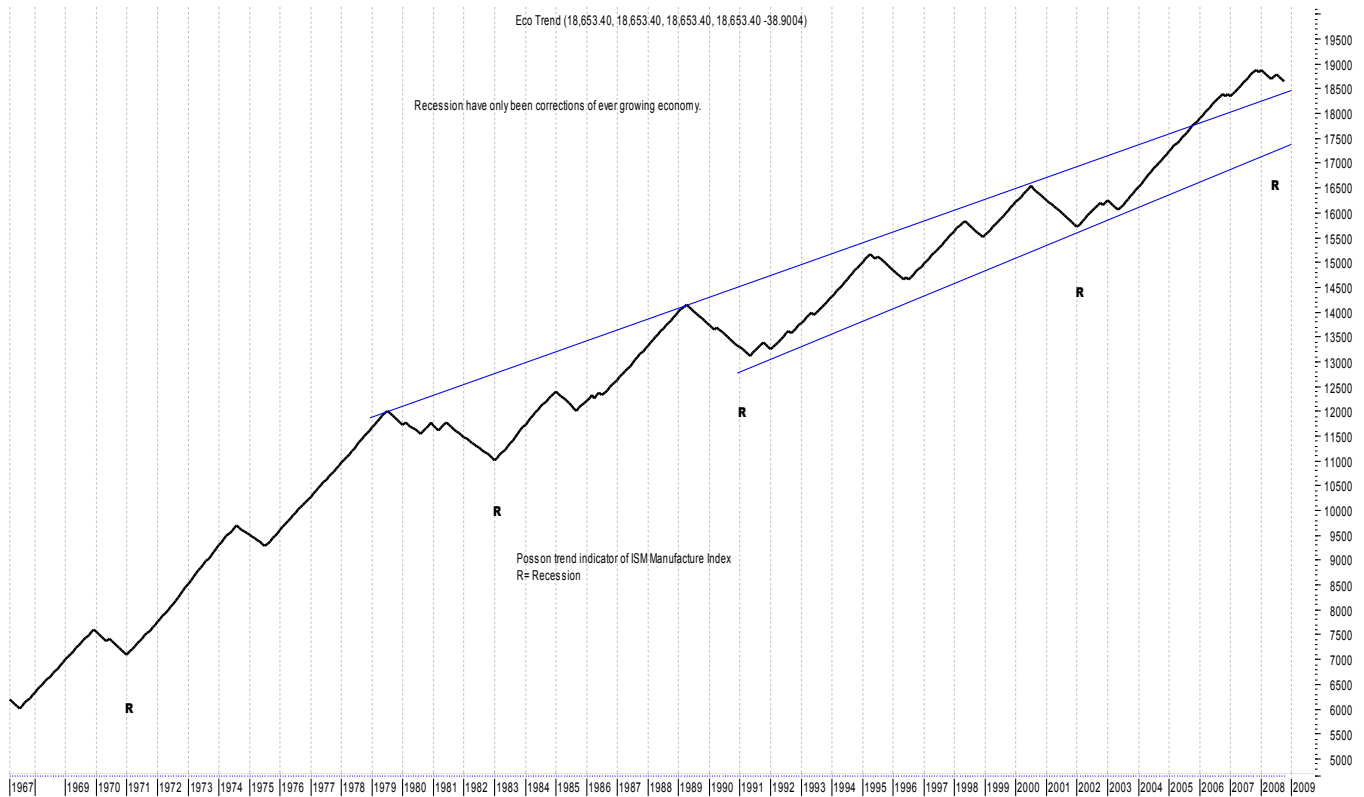
Ag Financial Strategies

Agriculture Report

Special report- The business cycles as of 3/20/09 by Rich Posson, CMT



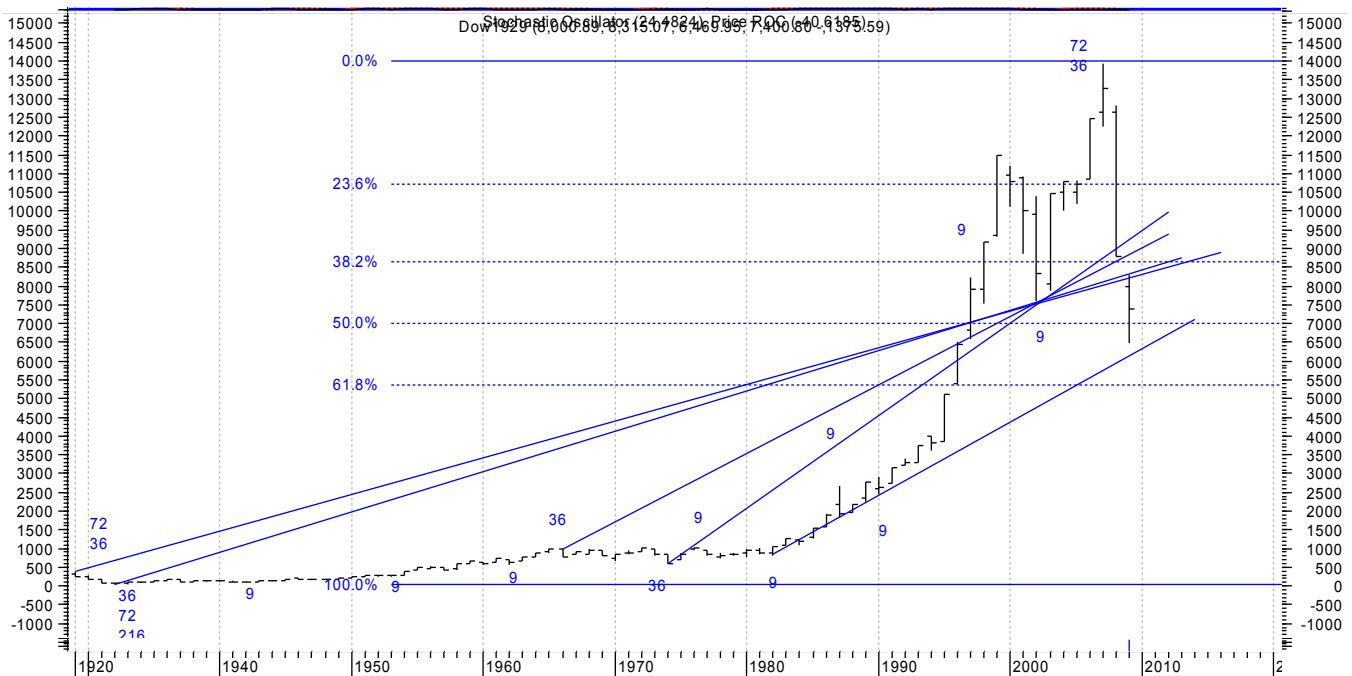
The Manufacture Procurement index has long been used as an indicator of the economy. A value under the lower horizontal line suggests the economy is in recession. A value over 50 (center line) suggests the economy is growing. The upper line reflects a rate of change that is too high but does not necessarily mean a peak for the economy. In 2008 the indicator crashed similar to 1980 and 1974. Note the quick recovery during 1980. This chart is labeled with a few of the 3yr business cycle trend reversals. The recession lows and boom highs relate more to a larger trend of a decade -- the 9yr business cycle. Current research points to chance the worst has been seen for this indicator but this does not mean the recession has come to a end. It is more of a light at the end of the tunnel.



This chart exhibits a cumulative study of the Manufacture Procurement indicator. The trend has been up since the start of recording of the indicator in the 1950s suggesting the economy has been in a growth trend for that long of time. Recessions have been corrections of the up trend. For this chart recessions are labeled with an R and relate to the larger of declines and correlate for the most part with official recession calls made by economists. Statistics offer the idea that economic boom periods last 7 to 12 years and fit with the model concept of a 8 to 13 yr business cycle named the 9yr or decadal business cycle. Recessions last 12 months to near 30 months with the latter as more likely a rare double dip recession and on average recessions last 18 months.

The economy peaked (according to this study) February of 2008 and so minimum amount of time for a recession has been met as of writing this report. Even if the Manufacture indicator has bottomed it could take several months to return to 50 and higher and until 50 the trend indicator shown on the second chart would continue to decline. Best forecast calls for bottom reversal as soon as MAY 2009 into early 2010. Best guess is the recession ends this year but early 2010 can not be ruled out and a rare double dip recession should not be ruled out and into 2011/2012.

On a seasonal or intra year basis, I believe the economy will bottom as previously forecast March to May of this year but what is not known is will the recovery be a correction within recession into year end or early 2010. Once the recession is over the next decadal based boom period should last into 2017 to 2019.



Stock Market

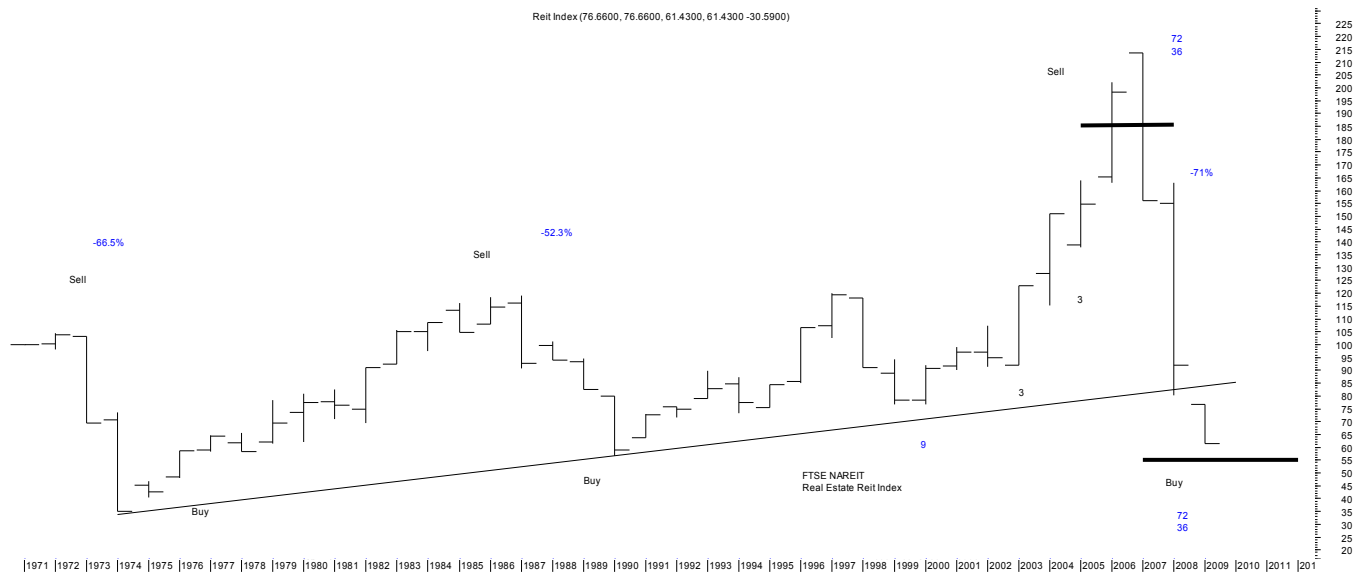
The models include the 216yr business cycle like that of the commodities models but the related trend had been of longer years than commodities –up to 160 years trending higher. The current trend began in the 1930s and should last into late 2060s to early 2070s, but I think it questionable as to will the returns from long term stock market investing be as great as past 70 years or so. I am dialing in higher inflation, labor cost and commodity cost and assume less left over for the investor now into 2040 and then improvement from then. None the less new record highs should occur for the Dow index shown on the chart.

Like commodities, the stock market model includes 72 and 36 year business cycle bottoms but differs from most commodities in that it uses the same cycles for tops. The 72yr business cycle is more volatile and therefore more important for stocks than commodities. History shows that in the 1700s the 72 yr cycle related to a near 80% decline in value and a bear market that lasted 60 years. During the 1800s the same cycle related to a similar decline in valuation and a bear market that was as long as 30 years and into the Civil War bottom. The next cycle (1929 to 1932) was only of 3 years of bear market but still with devastating decline of 89% for the Dow index. The US and probably the World is within cycle number four (from 1695) and a stock index of Russia did decline 80% as of last year to prove history did repeat in one context or another. For that matter the 85% decline of the US Nasdaq 100 index by 2002 also fits with this cyclical structure.

The Dow index could still decline 80% or so from current record high near 14,200 but current research suggests the government intervention will work to some extent, that global economy is in better position to US and can offer support even to US market and that the other side of the macro economy, that being commodities already placed its depression cycle bottom 1998 to 2005 and centered around 2001 recession. This suggests a different macro economic in cyclical terms in that the economy will not be like that of the 1930s and with chance stocks do not decline as much. None the less it is allowed for the stock market to be of the greater fool theory and decline by 80% while the economy does not erode in correlation.

The models favor a 72 yr bottom 2009 to 2012 and if the recession will end by early 2010 then odds favor a stock market bottom 2009-2010 over 2011-2012. It may be impossible to pick the day, it may be difficult to pick the year but I assume a buy of life time to occur now into 2011.

Long term model opinion of shorter length of cycle suggests a recovery for the stock market for 2009 but new lows from current low of this year will be cause of concern that the 3yr business cycle (a component of larger cycles) has not worked and a similar occurrence was in 1931 for the final stage of the crash. Current forecast assumes a 3yr cycle bottom was placed at current low of this year and trend is up into year end to early 2010.



Real Estate

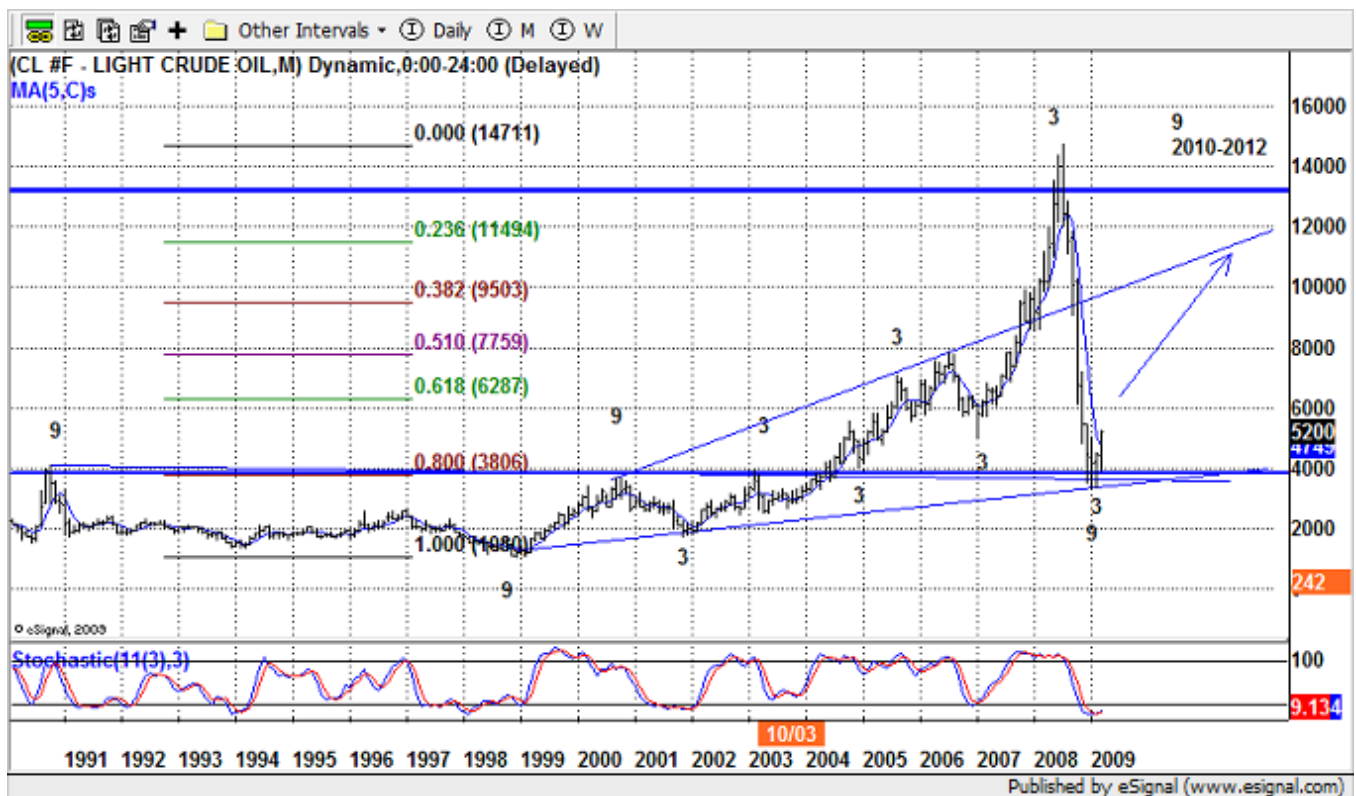
The National Real Estate Investment Trust index was due for the same cyclical top this decade as that of the stock market and in relation a similar bear market. Models seek a bottom now into 2012 and cash real estate is likely to bottom ahead of REITS and ahead of the stock market. With the index down 71%, I think there is evidence that history did repeat in cyclical terms. Like the stock market forecast a buy of life time nears for real estate but I assume slower positive rate of return next several decades. On a shorter term basis however, real estate bears may be surprised of the pace of recovery by early next decade. I doubted the model forecast for return to 1990s to 1980s lows following such an impressive bull market but models won the debate and this chart provides the proof.

Over the next 20 to 30 years this index should trend to a new record high.



US Dollar

The models forecast a 9yr (and larger) business cycle top(s) occurred in 2002 followed by a related bottom in 2008 and the trend is up into early next decade but the 3yr business cycle trend peaked March of 2009 (or as late as May 2009) and should cause a correction to 75 for the index shown and during 2009 into early 2010. A test of 2008 seems in order and with a crest of the elation of flight to US safety to turn to concept of money to be printed while recession persists through 2009 and global economy can rebound ahead of US and the divination of inflation, the currency trade indeed can turn bearish the dollar for 2009.



The energy markets bottomed in 1998 for business cycles up to 72yr and this from research with use of chart from 1860s. The recent crash of crude oil price was to an 80% retracement level and former resistance level of 9yr business cycle tops 1990 and 2000. If breached resistance levels can become support levels. In addition oil was most over sold on a monthly basis relative indicator shown, which I think relates to research that suggests an extreme under valued market and a market place that was crippled by the financial market fall out.

A rule within the models is that a minimum of four of 3yr business cycle tops must occur to create a 9yr business cycle top. The models show three of the 3yr trend tops from the 9yr top placed in 2000 and there is no alternate script and this creates a model forecast that the 2008 record high is unfinished business. The forecast calls for a top with use of one or two 3yr business cycle tops due 2010 to 2012 and with price to return within 10% of the record if not a new record high. This may not seem feasible but with a rate of change of \$30 per year a new high can occur by 2012 and with just 15% price increase from 2011 to 2012 but with 100% increase for 2009. For this spot futures chart a 50% price increase has already been achieved.

The model forecast is bullish commodities now into 2010 with potential for significant bottoms this year for real estate and stocks. Still larger trends are bullish into early 2030s.

The models-

The long term commodity model includes 3yr, 9yr, 27yr, 54yr and 216 yr business cycle tops and 3yr, 9yr, 36yr, 72yr and 216 yr business cycle bottoms. For stocks, the commodity cycle bottom catalog is used as model input for both bottoms and tops. These models are similar to economist Schumpeter's model of Kitchin (similar to 3yr), Juglar (similar to 9yr), Clement (similar to 27yr) and the famous Kondratieff (similar to 54yr). The models integrate these trends with shorter term trend of several months to a few minutes and in addition model opinion is compared with a Fusion model that includes fundamental and technical study. The cyclical model pattern concept is even applied to specific fundamental data including proprietary weather index data. In general trading decisions are biased toward price trend only cyclical model.

Statistics-

Business cycle trends larger than the 9yr cycle range of several years to 160 years with price change as large as +4400% for some of the grains.

Business cycle trends of the 9yr cycle average 5.5 years for corn and larger for stock index. And for corn with potential for as high as 500% increase.

Business cycle trend of the 3yr cycle which can make or break the business and investment year range from several months to a little over 2 years in trend with price potential of -60% to +200%.

Past results are not necessarily indicative of future results.

From the research vault-

The Posson Corn chart from 1495 at 1/3 cent per bushel. A whole lof of history buried within price that was cyclical every step along the path of least resistance. And consider during that time the poulation of man exploded, knowledge increased, standard of living increased by largest amount and economies grew by the largest –ever. And agriculture played a positive role.

