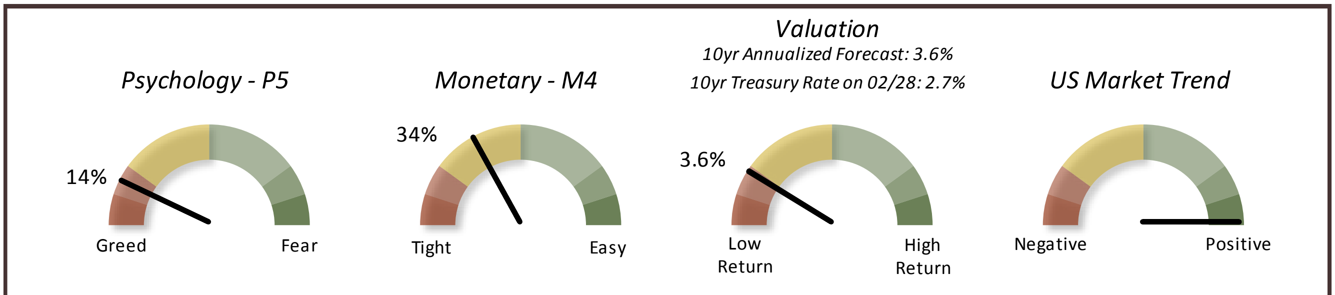
Cypress Market Outlook

By Keith Hays



Recommended Equity Exposure: 70% of Maximum Allocation

Market Trend Analyzers	Phase
Domestic Equities	*Investment Phase: 70% Invested*
International Equities	*Trading Phase: Short Term Trend Positive*
Real Estate	*Investment Phase: Maximum Exposure*
Commodities	*Trading Phase: No Exposure*

Monetary

Components	Condition
Exchange Rates	*Neutral*
GDP	*Positive*
Inflation	*Neutral*
Interest Rate Spreads	*Negative*
Interest Rates	*Positive*
Lending & Leverage	*Neutral*
Monetary Aggregates	*Neutral*
Velocity	*Negative*

Psychology

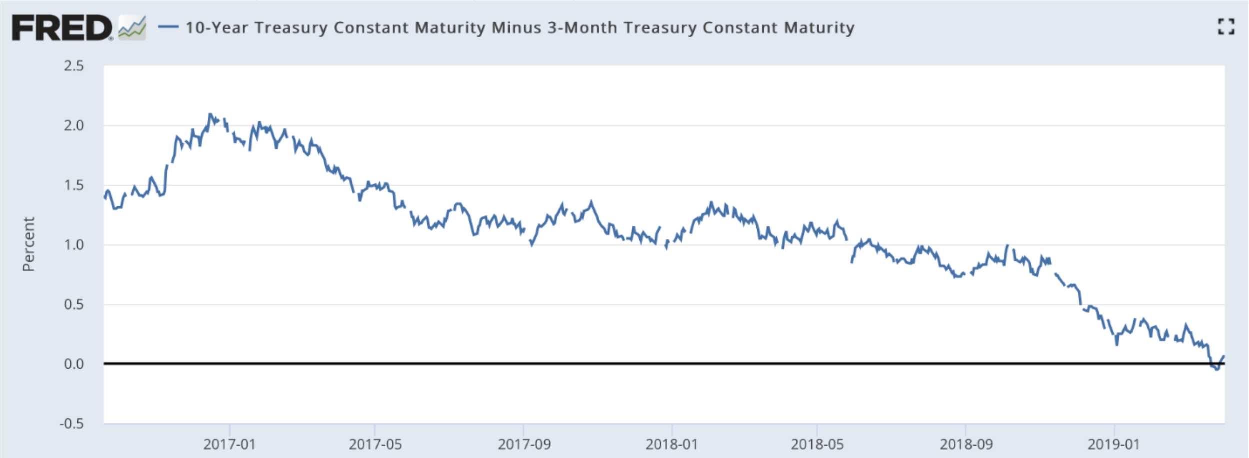
Components	Condition
Bank Sentiment	*Negative*
Flow of Funds	*Neutral*
Fund Flows	*Positive*
Insider Sentiment	*Positive*
Leveraged Investments	*Negative*
Option Activity	*Negative*
Surveys	*Neutral*
Consumer Confidence	*Negative*
Technical Indicators	*Negative*
Trading Data	*Positive*
Volatility	*Neutral*

Valuation

Components	Level
10Yr Annl Equity Return Forecast	3.6%
10Yr Treasury Note Yield	2.7%
5Yr Annl Valueline App Potential Forecast	6.1%

The money management business is one of the hardest businesses I can imagine being a part of. Waiting out excessive bull markets is one of the hardest lessons on patience I have ever known. I'm not sure which is worse, waiting on my daughter to get out of her narcissistic years (13-16), or waiting on companies in the United States to present a better value so that I can scream and yell bullish. Fortunately for my family, my daughter passed through her tough years last year and is the sweetest thing you will ever meet. The stock market continues keep me from the great buying opportunity I want.

Though the market has rallied this week, it is not overbought in the short-term. We have room to rally until the market makes a real turn. Psychology is not good. Monetary is ok, but not great. The yield curve inversion will not help monetary at all. This week, the 3-month verses the 10-year Treasury inverted briefly and has since rallied back above inversion.



The main measure we watch is the 2 verses the 10-year Treasury. It has refused to invert.

Honestly, an inversion is not important. What is important is distance between the two yields. When longer-term Treasuries, considered the safest investments in the world, are significantly above shorter-term yields, financial institutions are simply more able to generate returns by taking in money and offering lower yields, while loaning it out at great profits. When yields move closer, it is more difficult to make money on the spread.

In addition, lower long-term yields cause investors to reach for yield with lower grade investments, just at a time when bonds are at highest risk. Do not fall for this trap.

This vicious cycle happens time and time again, and there is always an excuse why it does not matter this time… but it does. We believe our monetary will begin dropping rapidly on any inversion. We thought a slowdown would occur when rates began closing.

Bottom line. More risk exists in the stock market. Lower psychology with monetary weakening in an already low expected return environment. None of this is as important as your teenage girl… or boy or baby or wife or so many other things.

Thanks,

Keith

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To positively alter the course of others' lives.