Cypress Market Outlook

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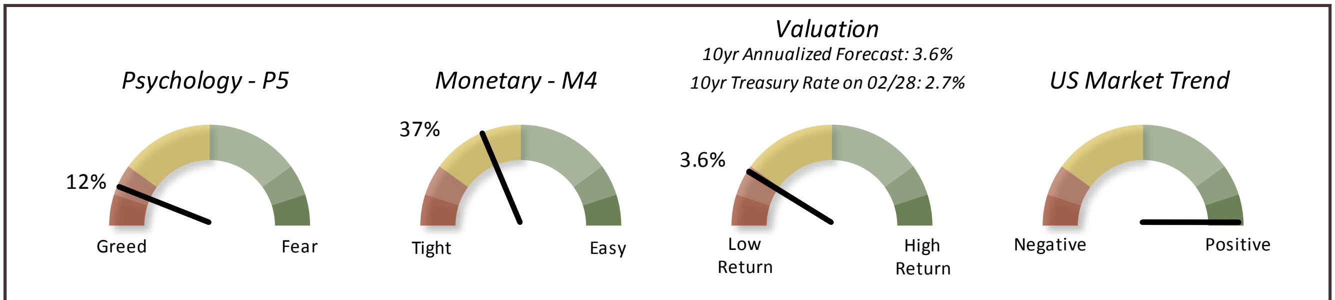

Recommended Equity Exposure: 70% of Maximum Allocation

Market Trend Analyzers	Phase
Domestic Equities	*Investment Phase: 70% Invested*
International Equities	*Trading Phase: Short Term Trend Positive*
Real Estate	*Investment Phase: All Trends Positive*
Commodities	*Trading Phase: Short Term Trend Positive*

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	*Neutral*
Leveraged Investments	*Negative*
Option Activity	*Negative*
Surveys	*Neutral*
Consumer Confidence	*Negative*
Technical Indicators	*Neutral*
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 model improved modestly overall this week. Psychology deteriorated some but has avoided the bottom decile of readings. Consumer Confidence, assets flowing into leveraged investments, and data from option trades are weighing down psychology the most here. The Barron's headline this week declaring "This Bull Market Has No Expiration Date" is enough anecdotal evidence to confirm those readings.

The drop in psychology was offset by improvements in monetary conditions and the market trend. You'll notice the market trend gauge is again pegged all the way to the right. We base that gauge on the complete set of rules that would cause us to label the market in a negative trend. In the last two weeks, all those rules have turned positive. You can see it in some measures of breadth too – the percentage of stocks above their 200 day moving averages is the highest since late last summer. Anything above 50% is a rule of thumb for a market in a stable enough trend.

Monetary conditions improved due to the recent sharp drop in Treasury yields and corporate bond yields. While this can also be early signs of a coming recession, without corresponding indications of decreases in the availability of credit, it's generally a bullish sign. It should be short-lived though. The flat yield curve will begin impacting readings and likely the economy over the course of the summer. It's difficult for short term moves in interest rates or improvements to shorter term sentiment indicators to overpower slower moving long term indicators that suggest that we are witnessing a once every 20yr kind of overheating.

The market's behavior continues to follow the 1998 analog, and we'd be surprised if we don't witness some key indices break through last year's highs, with non confirmation from others. Although, like 1998, we believe that they will prove to be short term gains that are ultimately given back. A look at 50yrs of market environments, where unemployment was hovering near 4% with both valuations and consumer confidence close to all-time highs, quickly illustrates how the short-term gains to be made in those environments from aggressive market-timing come with enormous risk. Better to think like the tortoise instead of the hare in this environment.

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