Cypress Market Outlook

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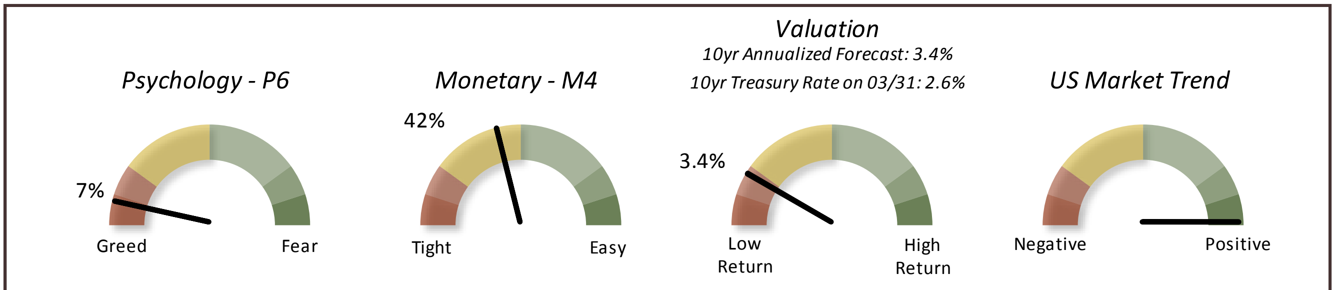

Recommended Equity Exposure: 70% of Maximum Allocation

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	*Neutral*
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	3.4%
10Yr Treasury Yield (on 03/31)	2.6%
5Yr Annl Valueline App Potential Forecast	6.2%

The Market Risk Index climbed back above 80% this week, and equity exposure across our managed portfolios currently averages between 60-70% of maximum exposure. Short term improvements to monetary conditions have stalled while investor psychology continued its descent into the depths with a score of 6.9 out of a possible 100. Psychology is falling further into no-man's land right as the strongest seasonal November to April period (after a mid-term election) is ending. The strong wall of worry that we saw on Christmas Eve 2018 is no more.

The headlines of the NASDAQ and S&P 500 reaching new highs have pushed several indicators back into territory that we saw at both the January and October 2018 peaks. Both Investor's Intelligence and American Association of Individual Investor's Surveys confirm that sentiment has shifted back in favor of enthusiasm. Consumer Confidence has also pulled down the psychology composite more over the last four weeks – as some the more obscure surveys from the Conference Board suggest complacency is taking hold. Across the range of many psychology charts, you'll notice a pattern developing in the indicators, a third slightly lower peak in enthusiasm that appears to be rolling over.

Unusual developments are also brewing under the surface of the new highs. The small cap indices are struggling to maintain their 200 day moving averages, and measures of market internals like the McClellan Oscillator have struggled to turn positive – a positive McClellan is usually a given for markets at highs. Several days in the last couple of weeks have also seen more individual stocks making new lows than highs. Granted, momentum tends to build more participation as a rally continues, but sentiment is also not typically this extreme either. The pattern is very similar to the late 90s, but for that market the breadth got worse. Despite that similarity, these breadth concerns are shorter term in nature and not market cycle ominous.

Meanwhile, pundits have forgotten about the yield curve. This happened in both previous inversions. The yield curve is such a long leading indicator that when it first inverts, it's greeted with alarm, but it quickly fades out of the headlines. Flat or inverted curves don't immediately lead to volatile markets – they coincide with the peak of the credit cycle when monetary velocity is running its hottest. The volatile markets coincide with the periods when the slope of the curve re-steepens. Think about the last cycle. The driver of the great recession was the decline in home prices. Home prices peaked in 2005 – the yield curve inverted in 2006 – a recession began in 2007 – and the deleveraging rippled through markets throughout 2008 and proceeded to wipe out over a decade of market gains. You didn't have to know about liar loans or CDOs or do forensic accounting on Lehman's balance sheet. You didn't have to be that smart. All you needed was a large dose of patience and to not dismiss the message from the yield curve.