Cypress Market Outlook

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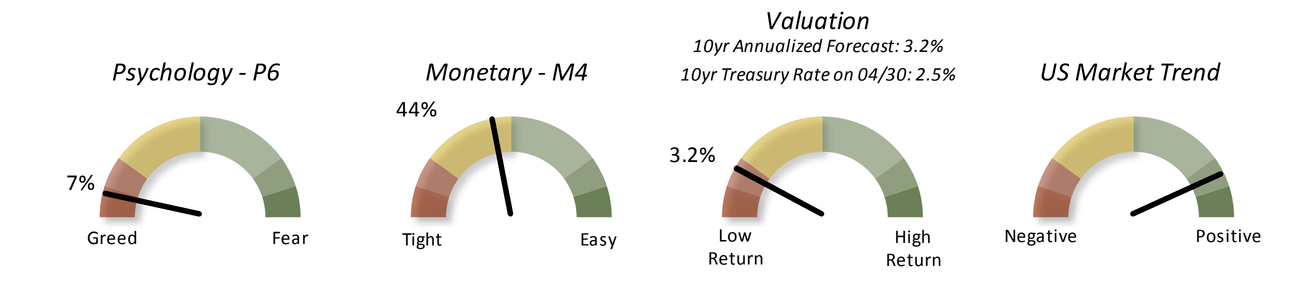

Recommended Equity Exposure: 60-70% of Maximum Allocation

Market Trend Analyzers	Phase
Domestic Equities	*Investment Phase: 60-70% Invested*
International Equities	*Trading Phase: ST Trend Negative, MT Trend Positive*
Real Estate	*Investment Phase: All Trends Positive*
Commodities	*Trading Phase: ST & MT Trends Negative*

Monetary

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

Psychology

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

Valuation

Components	Level
10Yr Annl Equity Return Forecast	3.2%
10Yr Treasury Yield (on 04/30)	2.5%
5Yr Annl Valueline App Potential Forecast	5.1%

The Market Risk Index changed little in the last week and indicates above average market risk. Movements in both the monetary and psychology composites were minor. With our equity exposure sitting at 60-70% of maximum after raising some cash at the beginning of May, we are looking for short term signs of sentiment improvement to put modest amounts of that cash back to work. So far, those signs are minimal.

Only two of the categories inside our Psychology composite have positive readings, Flow of Funds and Option Activity. Option activity in this case is just barely positive, with most indicators in neutral territory. For example, the 15dma of the Total Put/Call ratio has hit 110% on even minor corrections during the last few years, and it stood at 94% as of yesterday's close. Considering the nature of the market's recent behavior, there's little to suggest from the state of investor sentiment that May's correction has run its course.

The market also isn't yet very oversold. Breadth hasn't had much going its way either, with seven of the last eight trading days producing the ominous sounding Hindenburg Omens, the first cluster of Hindenburg Omens since October of last year.

The monetary composite has had a tailwind coming from the drop in bond yields that began during the correction in the 4th quarter of last year. This is the first week that tailwind has subsided, and we officially downgraded that category to neutral. The biggest negative for monetary conditions are related to the drawdown of the Fed's balance sheet and its impact on monetary aggregates, but in the next several weeks the yield curve will soon become the biggest headwind for our monetary composite and the economy since 2007.

Without passing judgment on the best or worst way to correct trade imbalances, it's an unusual period in the business cycle to think about the idea of a trade war, and only hindsight will end up saying for certain what ultimately proved to be one too many straws for the back of this bull market. Up until the last couple of years, the idea of a trade war even erupting sounded distant, like a relic of another era. Historically, the market wisdom from trade wars is that they aren't won, so much as someone manages to be the last one standing after the carnage. If there is a market history lesson on opportunities for investors in a trade war, it tends to be realized by those investors who had some extra powder to put to work going into one, because the opportunities come at the end of the war, not the beginning.

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