Steeplechase Investments

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Bull market or bull s__t? The answer behind door #1 is correct. The main market indices are now comfortably above their 200 day moving averages. As I said in the last tome, I felt until the S&P 500 and the Dow Jones averages confirmed with their "psycho-neurotic" brother (the NASDAQ), we would not be in a bull market. Well, in the second quarter, they both exploded through their 200 day averages. Technically speaking. this is a condition that was required before we could state unequivocally, that we were in a bull trend. Of course, we had to be proactive in our investment plans. We had to anticipate this "blessed" event. This is why we bought as we did in the 4th and 1st quarters. I know those time periods ended up being more of a thrill ride then some of you were ready for. There were a lot of hiccups, a lot of turbulence, before we found some smooth air. The 2nd quarter has certainly been more peaceful and calm (at least, for the people who were LONG the market). The SHORTS would definitely have a different view of the proceedings. They have been in a very unenviable position. It was only 4 short months ago that we were "on the eve of destruction." So does this market have "Bette Davis eyes or Marilyn Monroe legs?" This move is not over. It does still have some ways to go. We have been in a sweet spot and we will continue to be for awhile. As I stated "ad nauseum", the market was flashing signs of a major bottom for some time. We have one and all found out a bottom is not "Mr. Roger's neighbor hood." But that was then, this is now! The trillions of dollars that have heretofore been on th sidelines, are slowly but surely finding its way back into the equities market. We are about due to have "the crowd" enter the market once again. This first phase of buying will help propel the market higher. After a period of time, we will be putting our stocks for sale.

We have been in a very orderly correction the last few weeks. The early gains in the market are being digested. It has been absolutely textbook in its action. The volume of selling has been much lighter that the volume of buying. In "techno talk," we are forming a handle downward on light volume. Eventually we will begin an inexorable climb higher. So, the move to the upside is not over. However, we will begin to take profits and discard any laggards that have not kept up with the market. We have a nice mix of dividend payers, growth, and value, small, midcap, and large stocks. We have a nice "wall of worry" that has been constructed. We need naysayers to help this market on the upside. We do not want everybody to get recklessly bullish. I still think the shorts have failed to cover, so we could have a big bang when they begin to give up. We will continue to hear about valuations being too high, about the possibility of a double dip recession, and about the terrorist threat. That is important to keep the "nervous Nellie's" out of the arena.

Bonds, yes, the bonds (those no risk investments) have gotten pummeled. It was a very obvious top when the "hoor" houses (brokerage firms) were telling their clients to have a over-weighing of bonds and an underweighing of stocks. Nice move guys, way to protect your clients. Of course, bonds are a product, with generous commissions attached. So, you have made your commissions — "who cares about the client?" Hey, life is tough. You have to make a living somehow. RIGHT! The yield on the 10 year Treasury bond has rallied nearly 20%. I guess they will just have to hold those certificates for 10 years and they will be alright. Not!

In your quarterly reports, you received a semi-annual realized gains and losses report. In it, you will notice large profits in the spinoffs that occurred. They are hidden values in certain companies. In this case, Proctor and Gamble spun off Smuckers, Helmerich and Payne spun off Cimarex Energy, and Citigroup spun off Travelers Insurance. Talk to your accountant about these situations. They are usually tax free events. Have a healthy and peaceful summer. See you in the fall.

Ed

Your emotions are often a reverse indicator of what you ought to be doing.

—John Hindelong

If you simply take up the attitude of defending a mistake, there will never be hope for improvement.

—Winston Churchill