

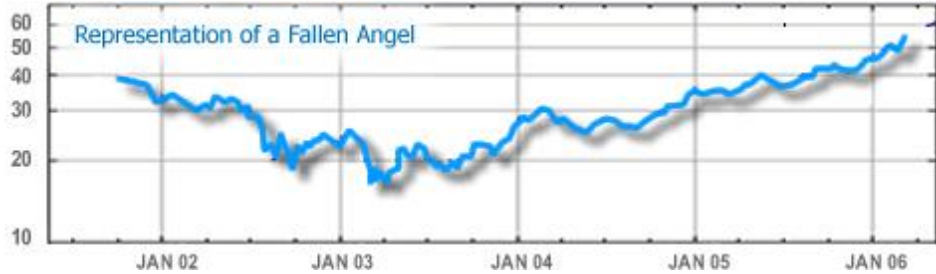


Many that are fallen shall be redeemed,
and many shall fall that now are in honor.
~ Horace, 20 BC

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or sells at the top. It can't be
done except by liars"**

Bernard Baruch
*Legendary Investor 1870 -
1965*

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A Declining Real Estate Market Can Boost Stock Averages

During the last real estate downturn in the early 1990s, I first observed what historically has been a repeatable pattern. As real estate was receding, stock markets were gathering momentum. The same sector rotation that was underway in 1993 I had observed before in the early 1980s. Thousands of upside down homeowners and speculators were walking away from properties and giving them back to the banks because they owed more than the current values. And because money goes where it is treated best, billions of dollars went flowing into the stock and bond markets lifting prices slowly and steadily. This was evidence that the 9 year real estate cycle was repeating, providing tremendous opportunities for any forward looking investor.

The 9 Year Rhythm

The more research I did, the more excited I became. Real estate and stock markets tend to be on opposite sides of a 9 year cycle. Historically, as real estate prices moved up, the stock market suffered. Wall Street prospered and stock averages rose during real estate downturns. This has been the pattern for a very long time. If we can pay little or no attention to all the dire stock market warnings and buy quality at a discount, the highest probability bets should work in our favor again.

There's a lot of persuasive data that can be helpful. In 1931, Economist Edward Dewey was hired by the government to study the cause and underlying dynamics of the Great Depression. What he and his research team discovered was that nearly everything in our world, financial markets included, move through cycles that repeat over time. This "rhythmic phenomena" is observed in economics and other sciences, and most cycles occur within established time frames, making them effective tools for prediction.

They found a correlation between the 4 year Presidential election cycle, the business cycle, and stock prices. The research takes us all the way back to the 19th Century. Cycle highs for the stock markets occurred in 1856, 1865, 1874, 1883, 1892, 1901, 1910, 1919, 1928, 1937, 1946, 1955, 1964, 1973, 1982, etc. Simply add 9 years to each successive date, and you can see the pattern. 1991 and 2000 were certainly on schedule as 9 year market peaks! If the cycle repeats as it has over the last 150 years, the next stock market cycle high should occur in 2009, providing substantial profit potential for the next couple of years.

Putting on our swami hat and looking into the crystal ball that cycle theory provides, it's easy to be bullish on the stock market and bearish on real estate...until the great cycle begins to shift again in 2010 – 2011.

Fallen Angels Focus List

The Fallen Angels focus list is a watch list of prospective "value" stocks for further research.

Symbol Name	Date Added	*PriceAdded**PriceCurrent	Return Since Added	Target Price
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A	AGILENT TECHNOLOGIES INC	5/15/06	37.97	31.00	-18.36%	\$65
AAUK	ANGLO AMERICAN PLC -ADR	5/15/06	21.2	20.15	-4.95%	\$41
ACS	AFFILIATED COMPUTER SERVICES	5/15/06	53.13	53.04	-0.17%	\$111
ACTU	ACTUATE CORP	5/15/06	3.90	4.02	3.08%	\$7
BHP	BHP BILLITON GROUP (AUS)-ADR	5/15/06	44.80	37.89	-15.42%	\$112
BOL	BAUSCH & LOMB INC	5/15/06	50.08	51.96	3.75%	\$88
BPOP	POPULAR INC	5/15/06	19.82	19.97	0.76%	\$33
CBS	CBS CORP	5/15/06	25.66	28.54	11.22%	\$49
CCE	COCA-COLA ENTERPRISES INC	5/15/06	19.81	20.74	4.69%	\$37
CECO	CAREER EDUCATION CORP	5/15/06	31.90	19.97	-37.40%	\$50
CHK	CHESAPEAKE ENERGY CORP	5/15/06	30.75	29.10	-5.37%	\$56
COP	CONOCOPHILLIPS	5/15/06	63.52	58.44	-8.00%	\$160
CRDN	CERADYNE INC	5/15/06	49.79	43.18	-13.28%	\$137
CSCO	CISCO SYSTEMS INC	5/15/06	20.56	22.70	10.41%	\$40
DELL	DELL INC	5/15/06	24.35	21.61	-11.25%	\$54
DOW	DOW CHEMICAL	5/15/06	40.92	38.69	-5.45%	\$95
DT	DEUTSCHE TELEKOM AG -ADR	6/21/06	15.65	14.92	-4.66%	\$25
DTV	DIRECTV GROUP INC	5/15/06	17.55	19.19	9.34%	\$53
EBAY	EBAY INC	7/20/06	24.66	28.05	13.75%	\$60
EMC	EMC CORP/MA	5/15/06	12.85	11.37	-11.52%	\$29
EMN	EASTMAN CHEMICAL CO	5/15/06	56.3	53.54	-4.90%	\$105
F	FORD MOTOR CO	8/17/06	8.17	9.09	11.26%	\$18
FIC	FAIR ISAAC CORP	5/15/06	38.05	37.00	-2.76%	\$79
FITB	FIFTH THIRD BANCORP	5/15/06	39.39	38.81	-1.47%	\$65
FLEX	FLEXTRONICS INTERNATIONAL	5/15/06	11.50	12.55	9.13%	\$22
GS	GOLDMAN SACHS GROUP INC	5/15/06	153.14	162.52	6.13%	\$345
GW	GREY WOLF INC	6/7/06	7.28	6.85	-5.91%	\$14.7
HPQ	HEWLETT-PACKARD CO	5/15/06	31.63	36.25	14.61%	\$55
HS	HEALTHSPRING INC	5/15/06	16.47	22.20	34.79%	\$27
HW	HEADWATERS INC	5/15/06	32.51	23.12	-28.88%	\$80
HXM	DESARROLLADORA HOMEX -ADR	5/15/06	36.44	36.70	0.71%	\$82
IMCL	IMCLONE SYSTEMS INC	5/15/06	42.29	30.06	-28.92%	\$71
INTC	INTEL CORP	7/20/06	17.10	19.78	0.00%	\$27
IO	INPUT/OUTPUT INC	5/15/06	8.99	9.55	6.23%	\$28
KEM	KEMET CORP	5/15/06	10.44	7.84	-24.90%	\$20
LXK	LEXMARK INTL INC -CL A	5/31/06	57.25	57.11	-0.24%	\$90
MSFT	MICROSOFT CORP	5/15/06	23.15	26.33	13.74%	\$46
NBR	NABORS INDUSTRIES LTD	5/15/06	35.92	29.81	-17.01%	\$150
NCI	NAVIGANT CONSULTING INC	5/15/06	18.64	20.25	8.64%	\$42
NITE	KNIGHT CAPITAL GROUP INC	5/15/06	15.91	18.18	14.27%	\$25
ORCL	ORACLE CORP	5/15/06	13.97	16.47	17.90%	\$27
OTEX	OPEN TEXT CORP	5/15/06	14.51	16.35	12.68%	\$48
PACR	PACER INTERNATIONAL INC	5/15/06	31.72	27.63	-12.89%	\$61

SAPE	SAPIENT CORP	5/15/06	5.51	5.27	-4.36%	\$17
SCI	SERVICE CORP INTERNATIONAL	5/31/06	7.99	8.57	7.26%	\$22
SNV	SYNOVUS FINANCIAL CP	5/15/06	27.49	29.51	7.35%	\$47
STZ	CONSTELLATION BRANDS -CL A	5/15/06	24.16	27.61	14.28%	\$38
SYK	STRYKER CORP	5/15/06	43.41	50.24	15.73%	\$90
SYMC	SYMANTEC CORP	5/15/06	16.92	19.75	16.73%	\$33
TEVA	TEVA PHARM INDS -ADR	5/15/06	38.05	35.39	-6.99%	\$72
TIBX	TIBCO SOFTWARE INC	5/15/06	8.24	8.71	5.70%	\$14
TLF	TANDY LEATHER FACTORY INC	5/31/06	6.61	6.18	-6.51%	\$17
TP	TNT NV -ADR	5/15/06	37.57	37.17	-1.06%	\$70
TPX	TEMPUR PEDIC INTL INC	5/15/06	14.13	17.29	22.36%	\$25
UNH	UNITEDHEALTH GROUP INC	5/15/06	46.7	51.81	10.94%	\$88
VLO	VALERO ENERGY CORP	5/15/06	60.56	50.58	-16.48%	\$96
YRCW	YRC WORLDWIDE INC	5/15/06	45.28	40.01	-11.64%	\$68
ZMH	ZIMMER HOLDINGS INC	5/15/06	62.2	67.32	8.23%	\$147

* closing price on date added to Focus list

** closing price on 9-14-06

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