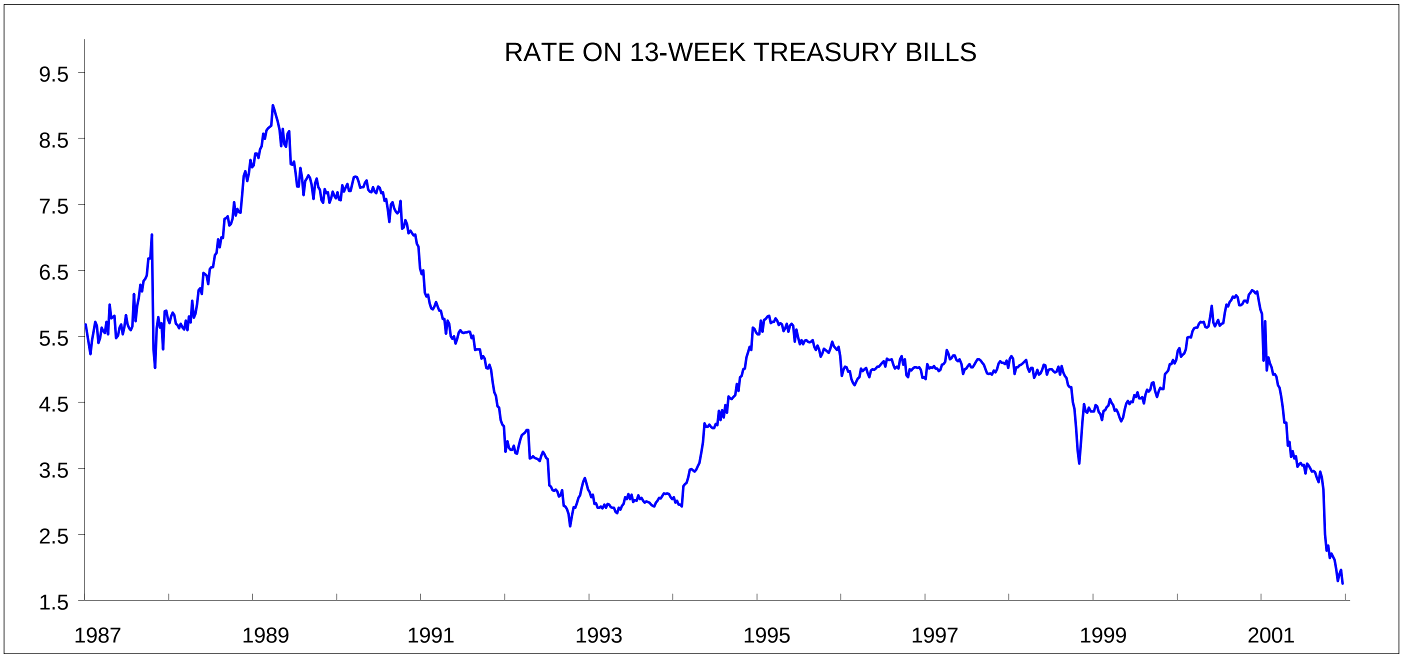
MARKET RISK BAROMETER



The stock market moves from periods of **low risk** and high profit potential to periods of **high risk** and low profit opportunities. The chart of the rate on 13-week Treasury bills is helpful in identifying the direction and level of market risk.

Phase 1: Risk has peaked.

The rate on Treasury bills **has been declining** for more than two months. This is an important signal suggesting that market risk is decreasing. Market risk will continue to decline as long as the rate on Treasury bills heads down. This is the time to invest aggressively in stocks.

Phase 2: Risk begins to rise.

The rate on Treasury bills **stops declining** and moves in a narrow range for several months. During such times market risk, although still low, is gradually rising. The longer short-term interest rates trade in a narrow range, the higher is the risk. Investors should become increasingly more conservative and begin to emphasize defensive stocks.

Phase 3: Risk is high and rises rapidly.

The rate on Treasury bills **begins to rise** following a prolonged period (several months) of trading in a narrow range. Market risk is now high and rising rapidly. Investors should have a very defensive portfolio.

Note: *The Peter Dag Portfolio Strategy and Management* follows closely these guidelines. They are discussed in detail in my book *Profiting in Bull or Bear Markets*.

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