CHART OF THE MONTH: DECEMBER 2006

Interest rates, long-term and short-term, drive the stock market cycle. I learned this simple rule in the 1970s. I discussed this cycle extensively in my books.

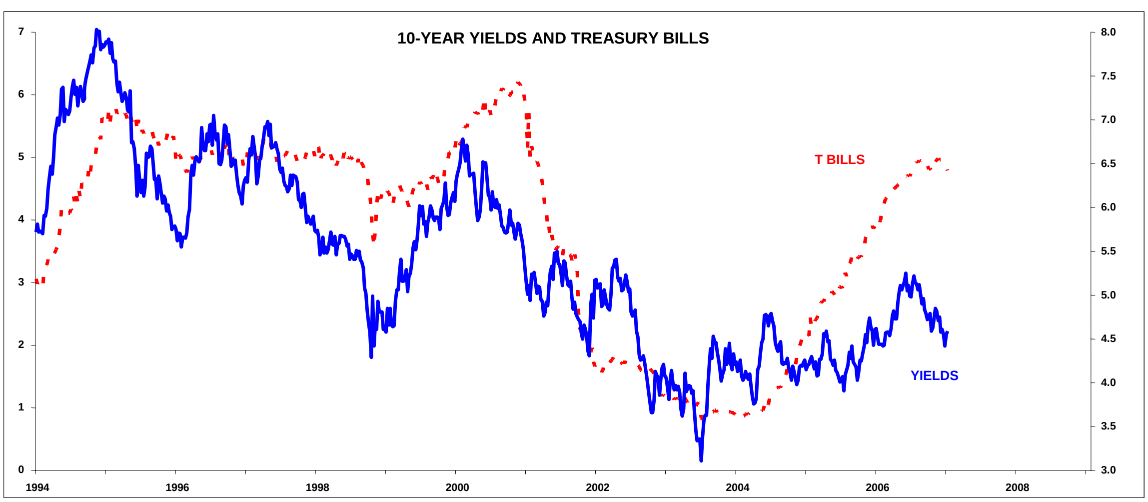
I am discussing it now because we are at an important juncture in the market and we need to gain some perspective. Like all rules, this one too has its exception. If you manage the risk of your portfolio, however, it is wise to keep these relationships in mind.

1. A rise in short-term interest rates is followed by poor stock market performance.
2. Market performance will remain below average as long as short-term interest rates keep rising.
3. Expect a new bull market following several months of stable or lower short-term interest rates.

The reason I am bringing up these relationships is because interest rates have stabilized since June. **This is a very bullish development for the market over the long term.**

The bottom line is that as long as short-term interest rates stay where they are, or decline, the stock market is more likely to rise than decline.

There is a catch, however. The technical picture is unfavorable. More details in *The Peter Dag Portfolio Strategy and Management.*



George Dagnino, PhD
Editor
The Peter Dag Portfolio Strategy and Management
Since 1977

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