

Hello!

AAII

DALLAS/DFW

PROFITING IN BULL OR BEAR MARKETS

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*The Peter Dag Portfolio
Strategy and Management*

www.peterdag.com

OUTLINE

- **LONG-TERM FORCES**
- **NEAR-TERM OUTLOOK**
- **INVESTMENT STRATEGY**

Peter Dag's **PERFORMANCE**

	<u>S&P 500</u>
2002 +7.4%	-23.4%
2003 +30.4%	+26.4%
2004 +16.9%	+9.0%
2005 + 4.1%	+3.0%
Total <u>+70.4%</u>	<u>+8.7%</u>

(S&P dividends excluded, Source: Hulbert)

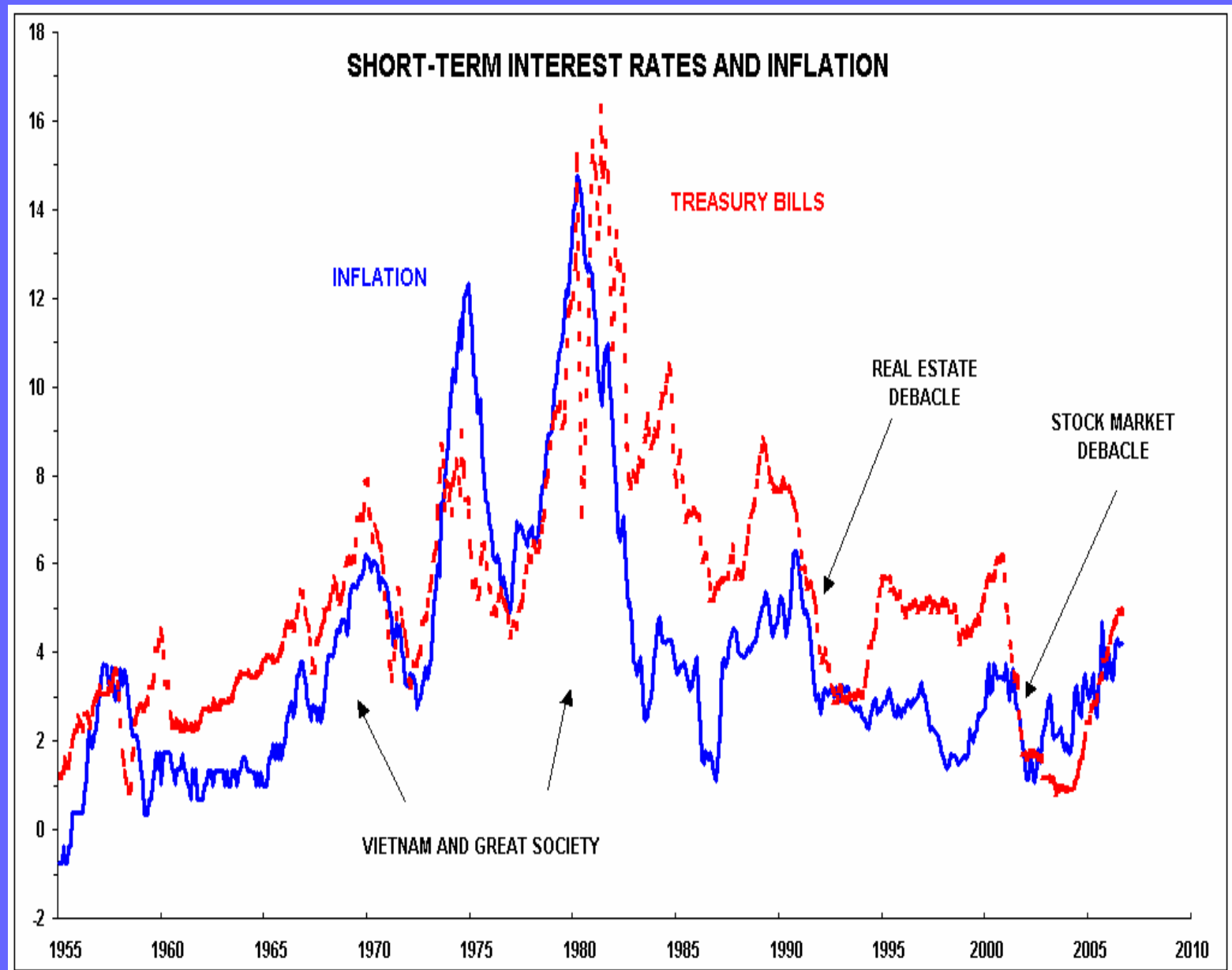
LONG-TERM SCENARIO

VERY IMPORTANT TO UNDERSTAND CURRENT TIMES!

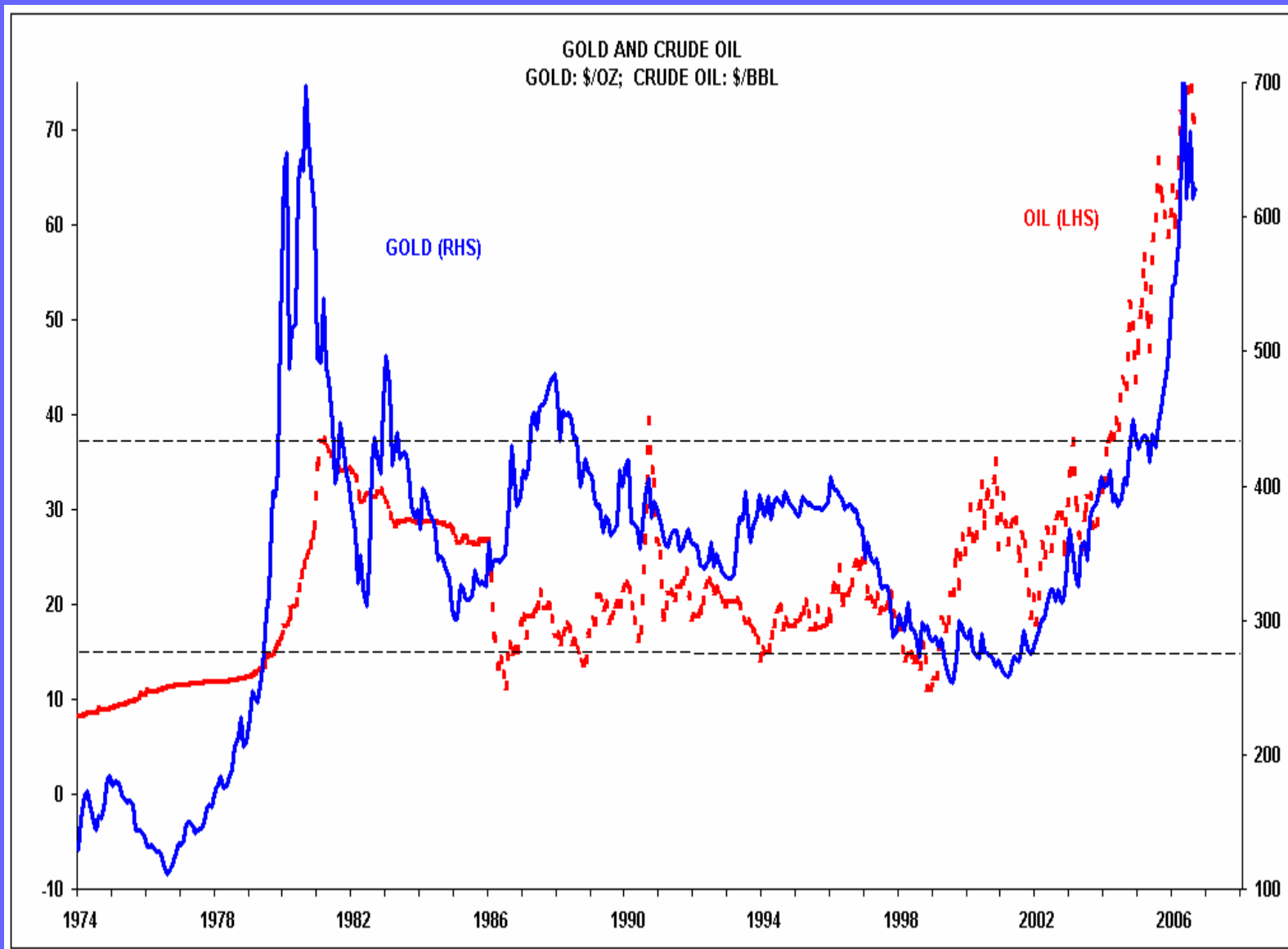
THE VOLATILITY OF
HARD ASSET PRICES
IS RELATED TO THE LEVEL OF
REAL SHORT-TERM INTEREST RATES

MONEY HAS BEEN

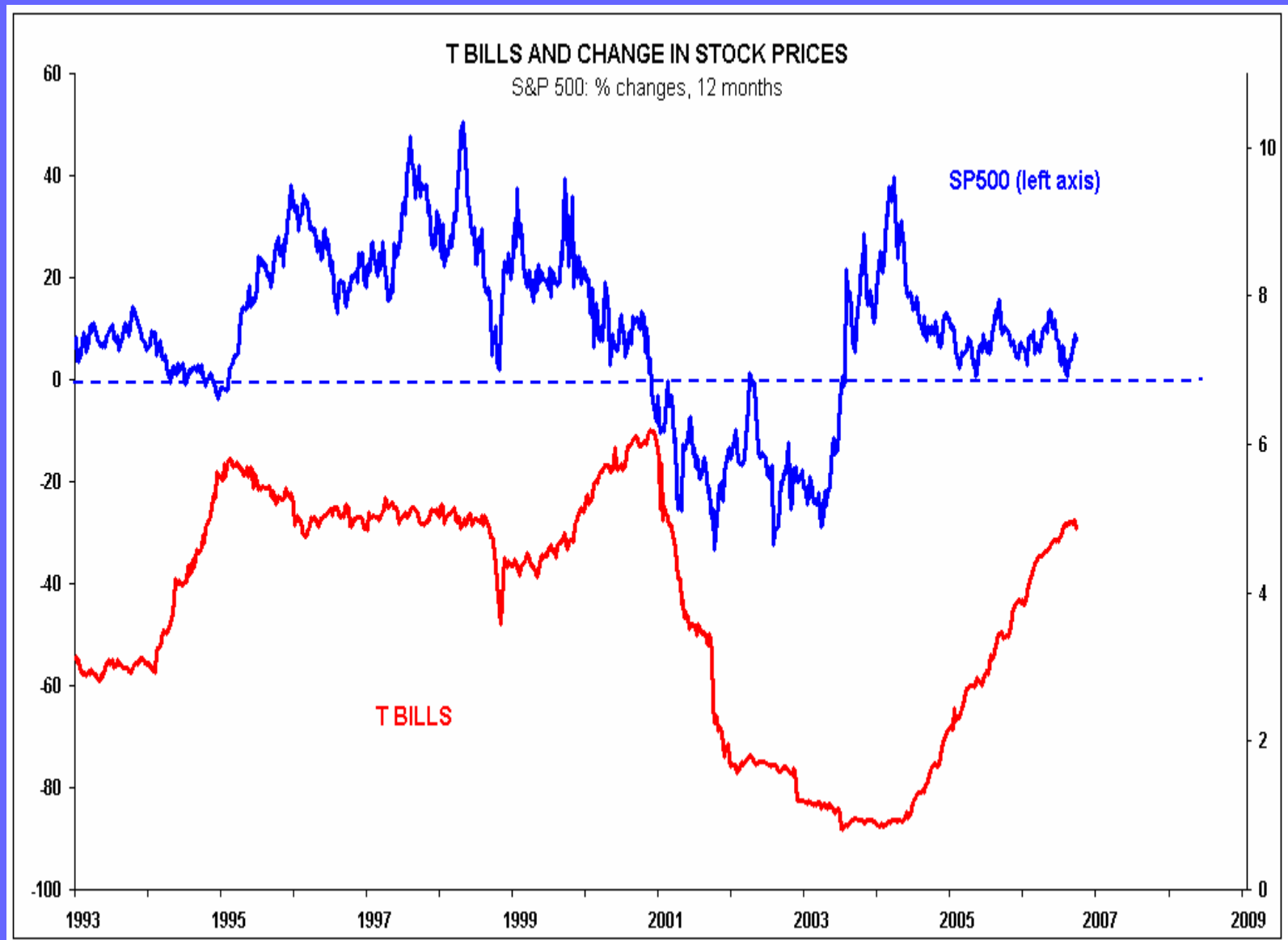
CHEAP!



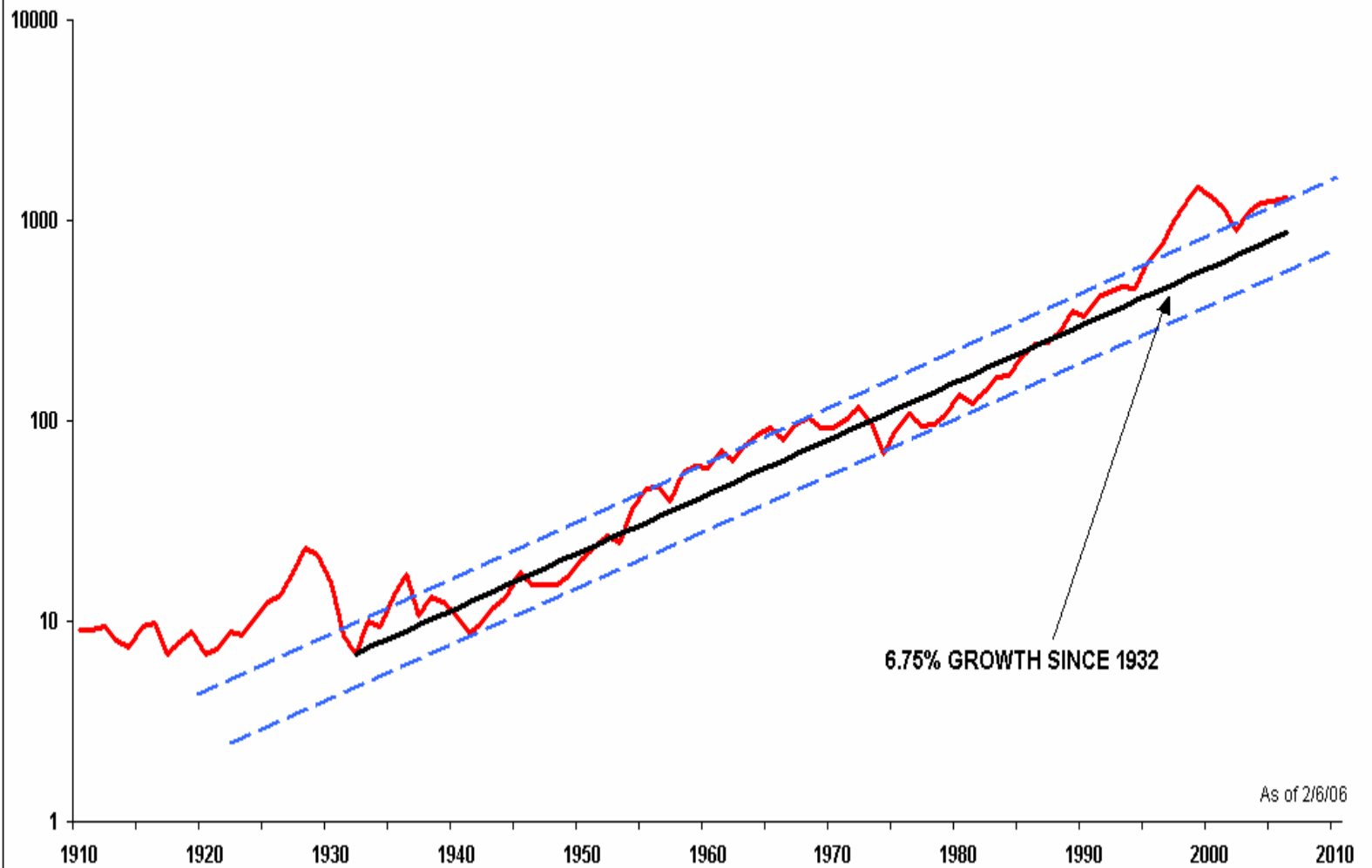
COMMODITIES
SOAR WHEN
MONEY IS CHEAP



**FINANCIAL RISK
IS STILL
ABOVE AVERAGE**

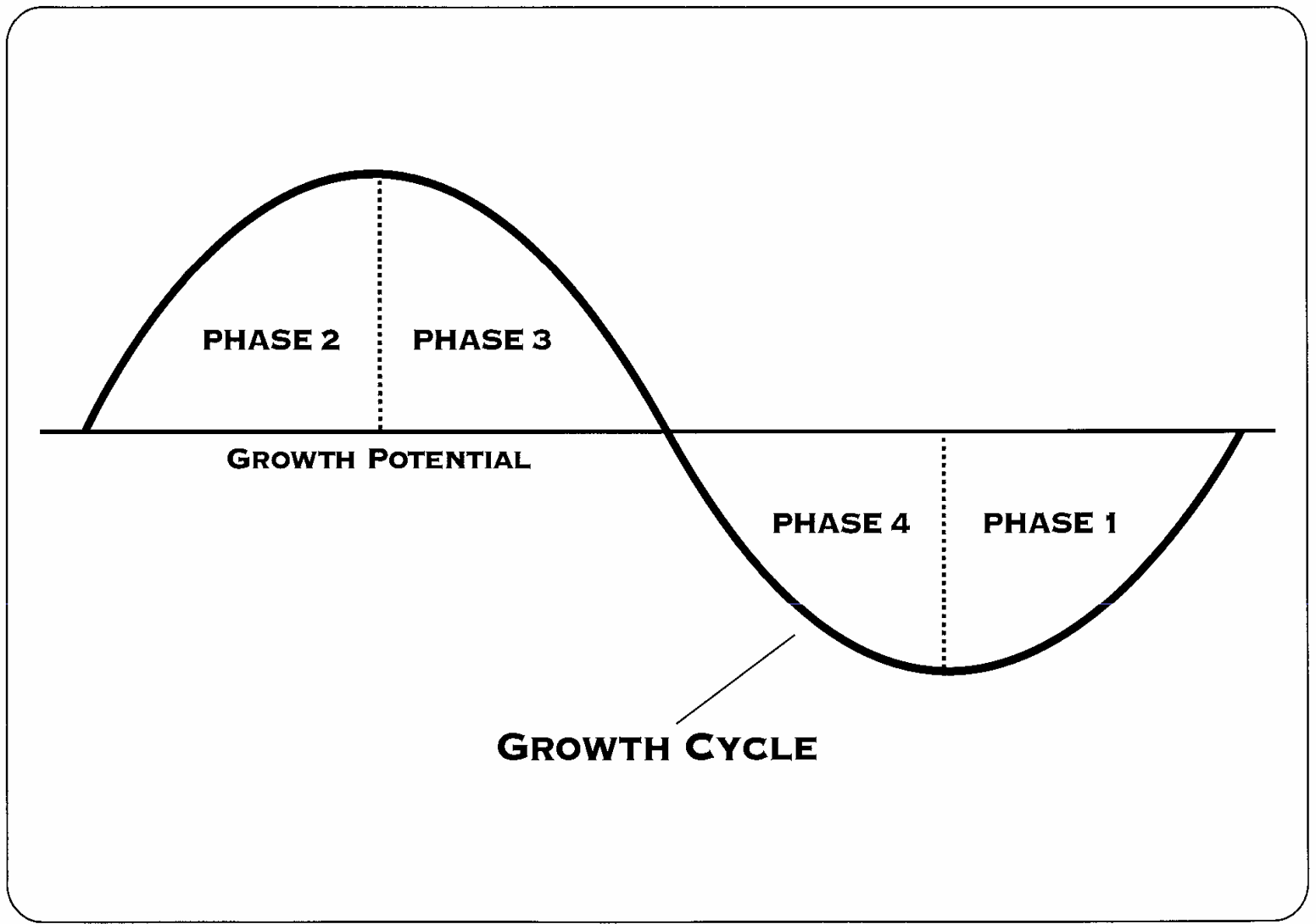


S&P 500

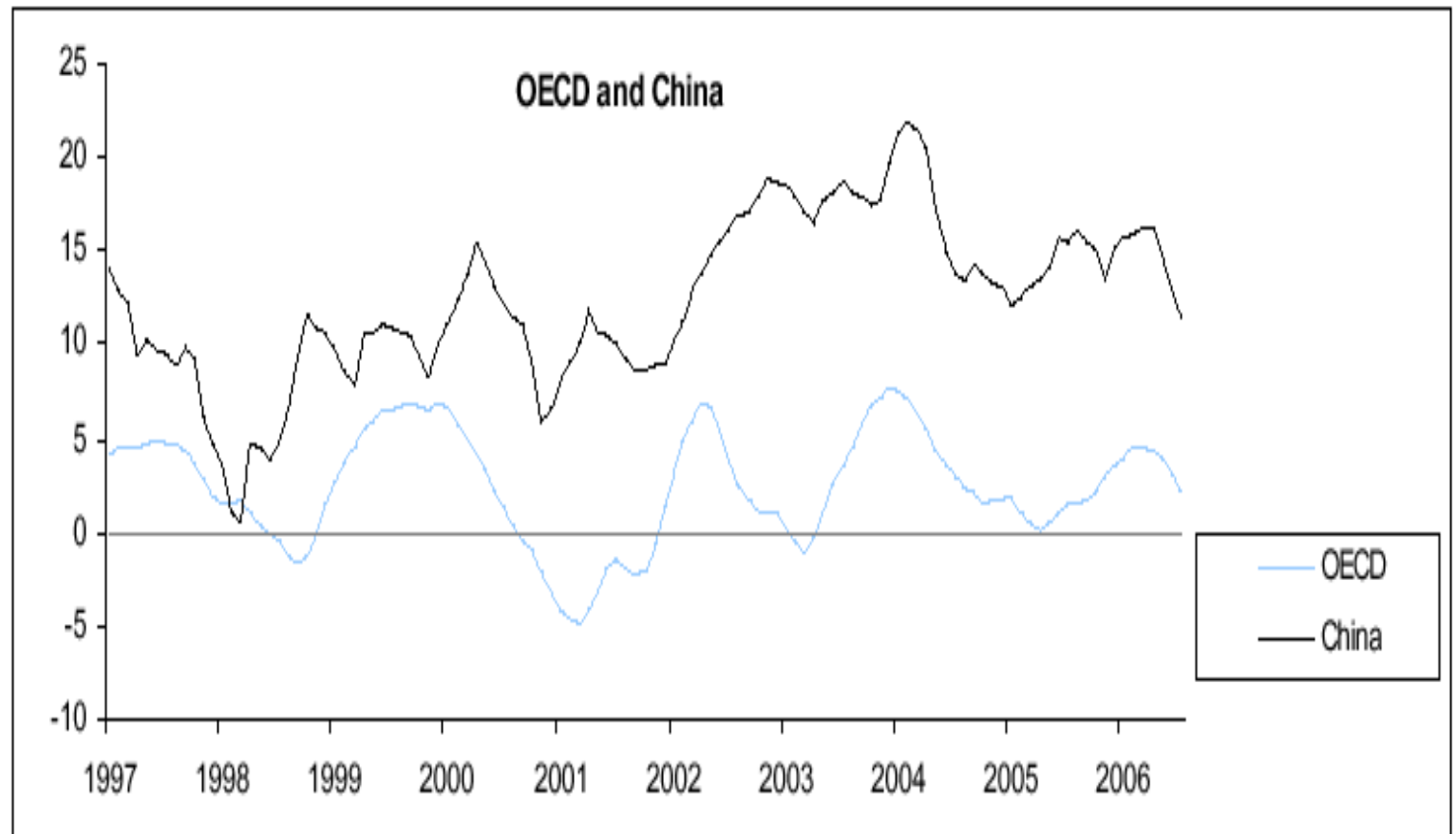


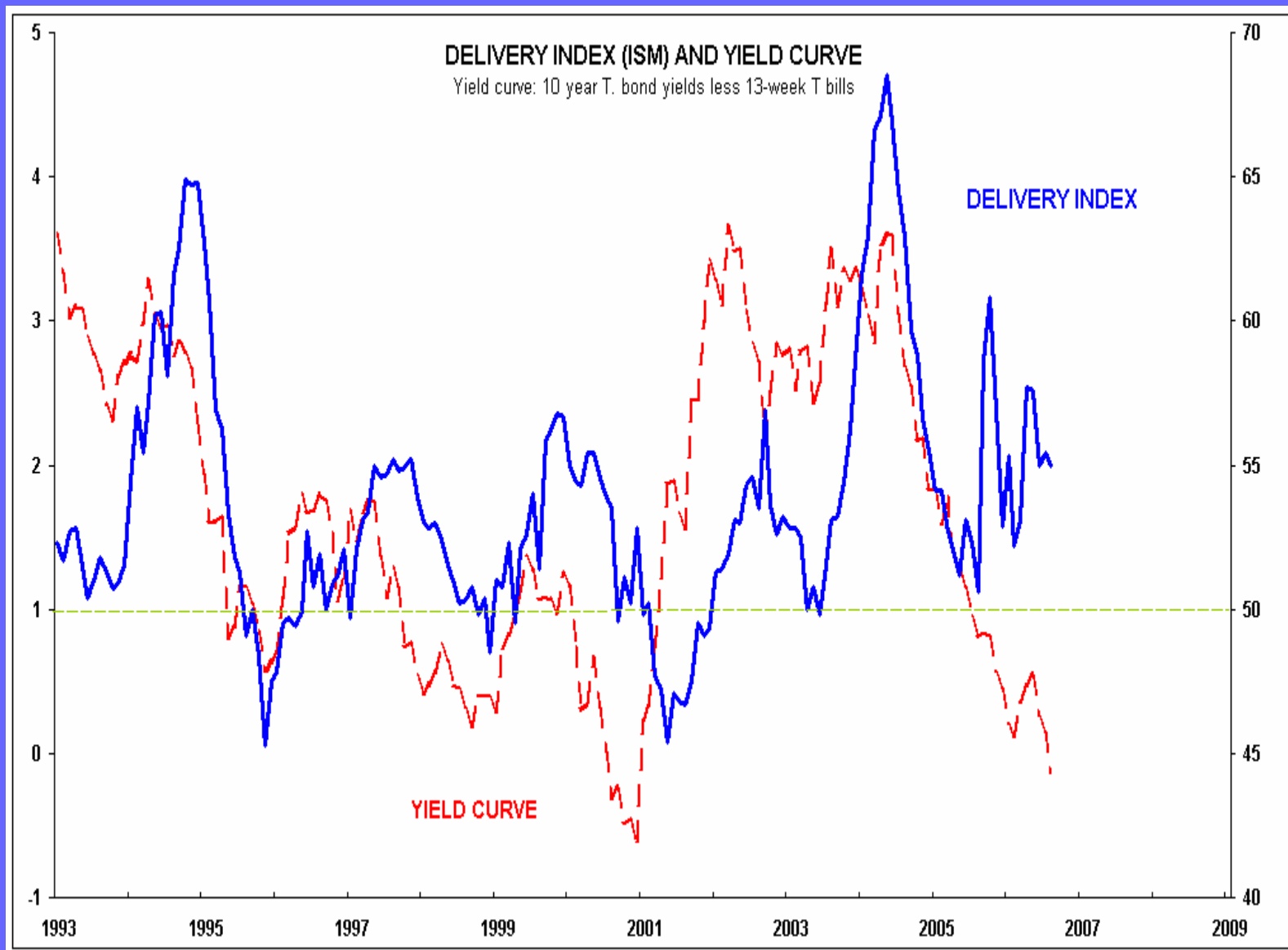
THE DRIVING FORCE OF ASSET PRICES

BUSINESS CYCLE



GLOBAL BUSINESS CYCLE

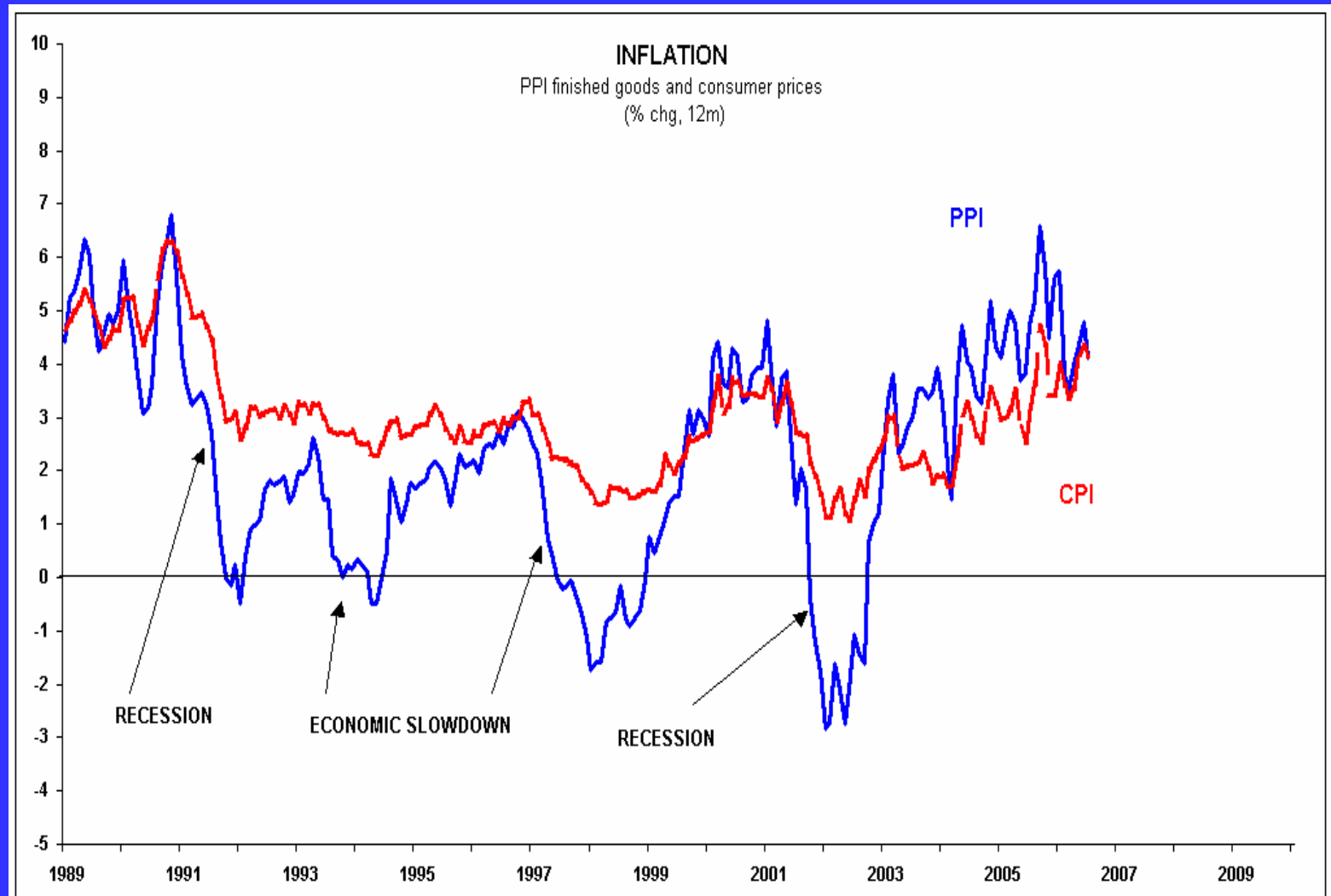




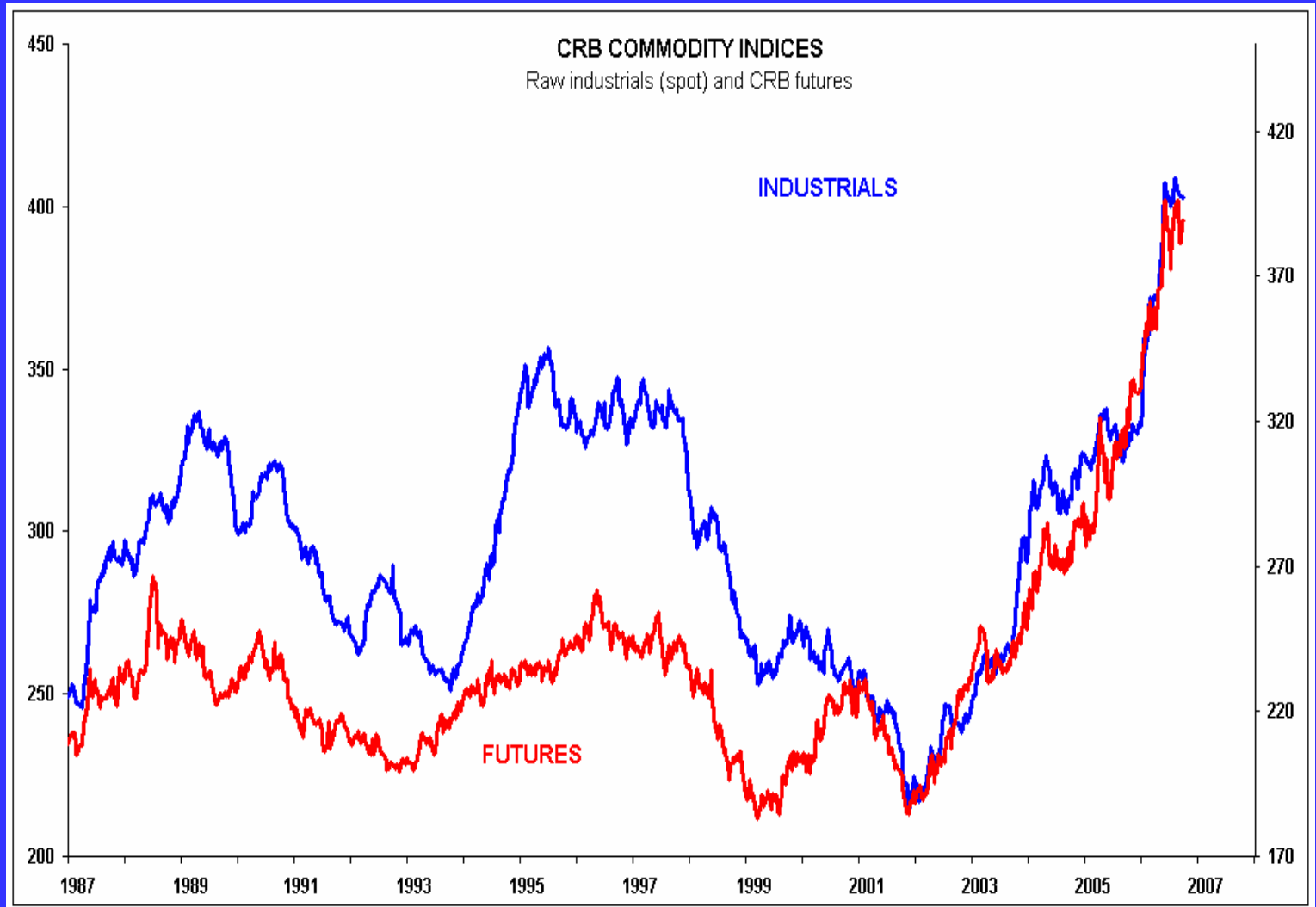
**ANY ECONOMIC
SLOWDOWN
IS CAUSED BY RISING**

**COMMODITIES
INTEREST RATES
INFLATION**

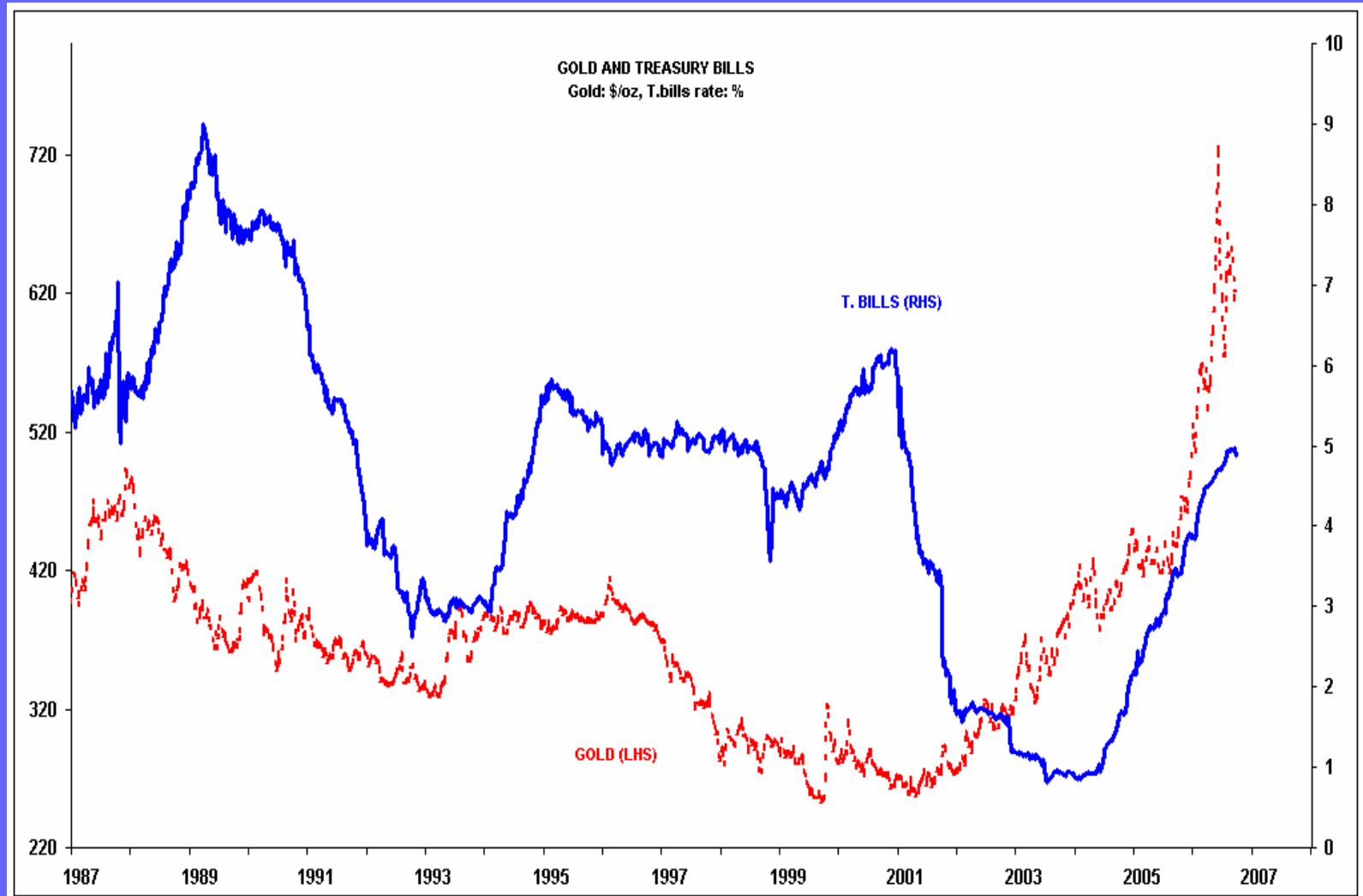
HIGH INFLATION = HIGH CHANCES OF RECESSION

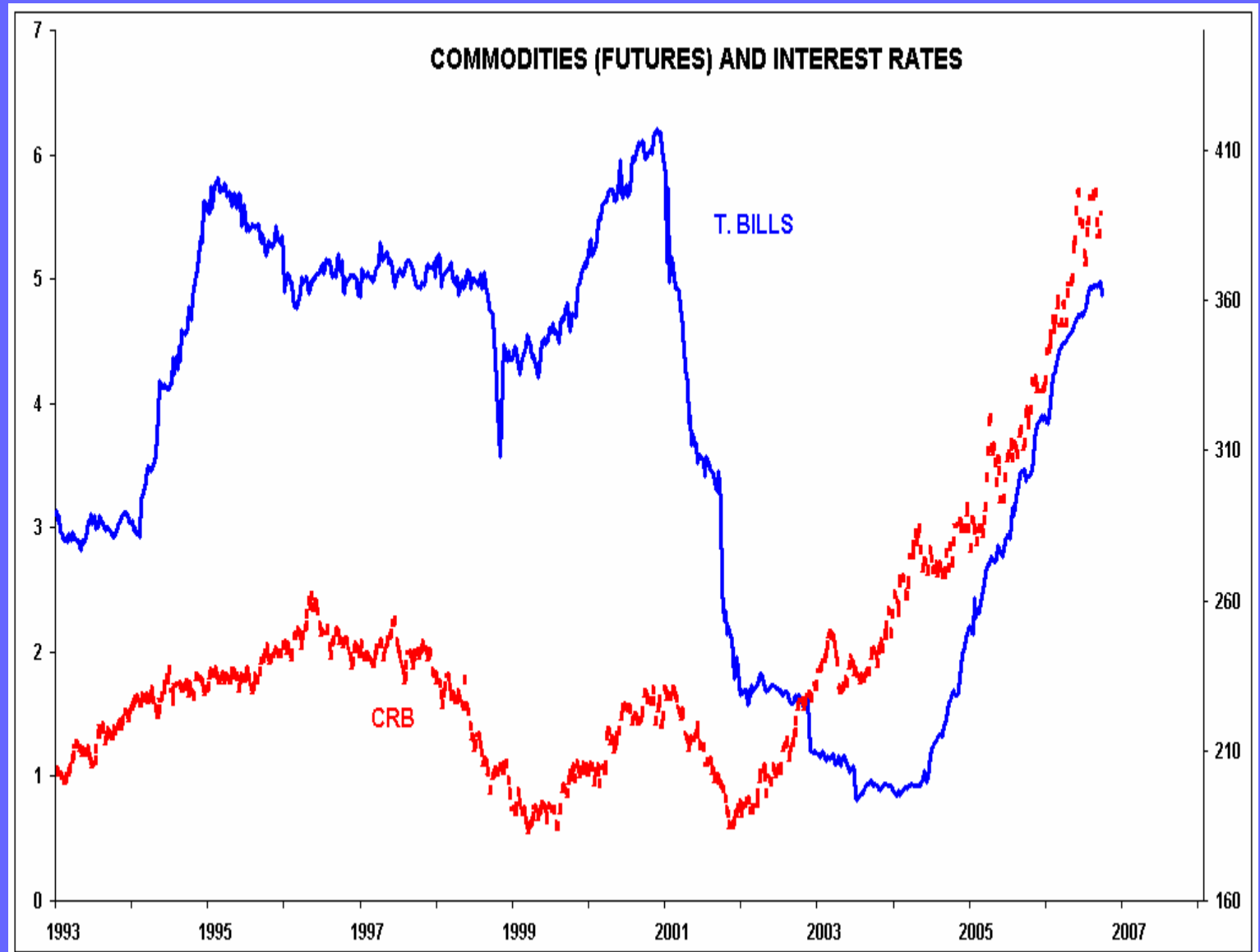


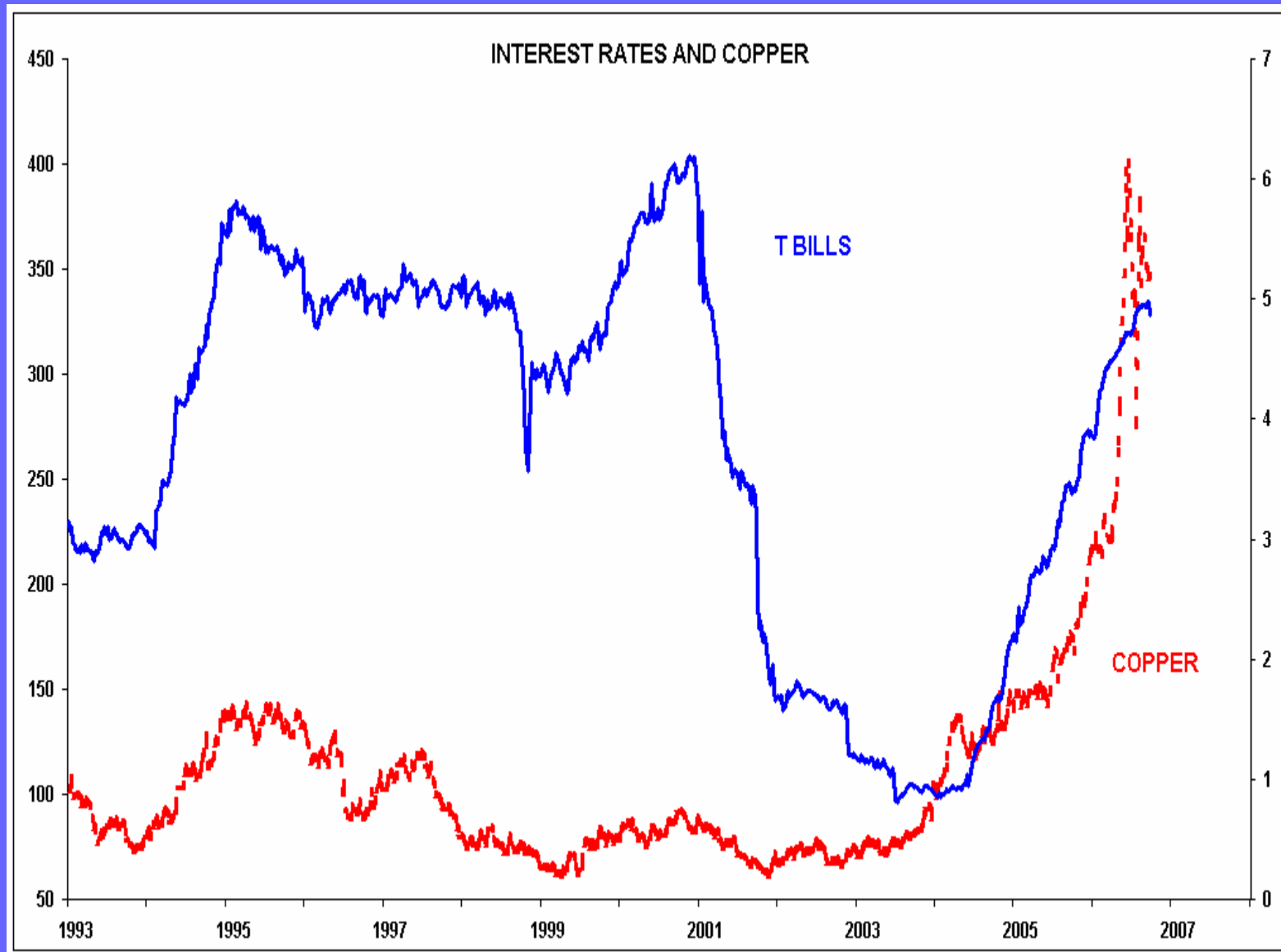
UP WHEN THE ECONOMY IS STRONG

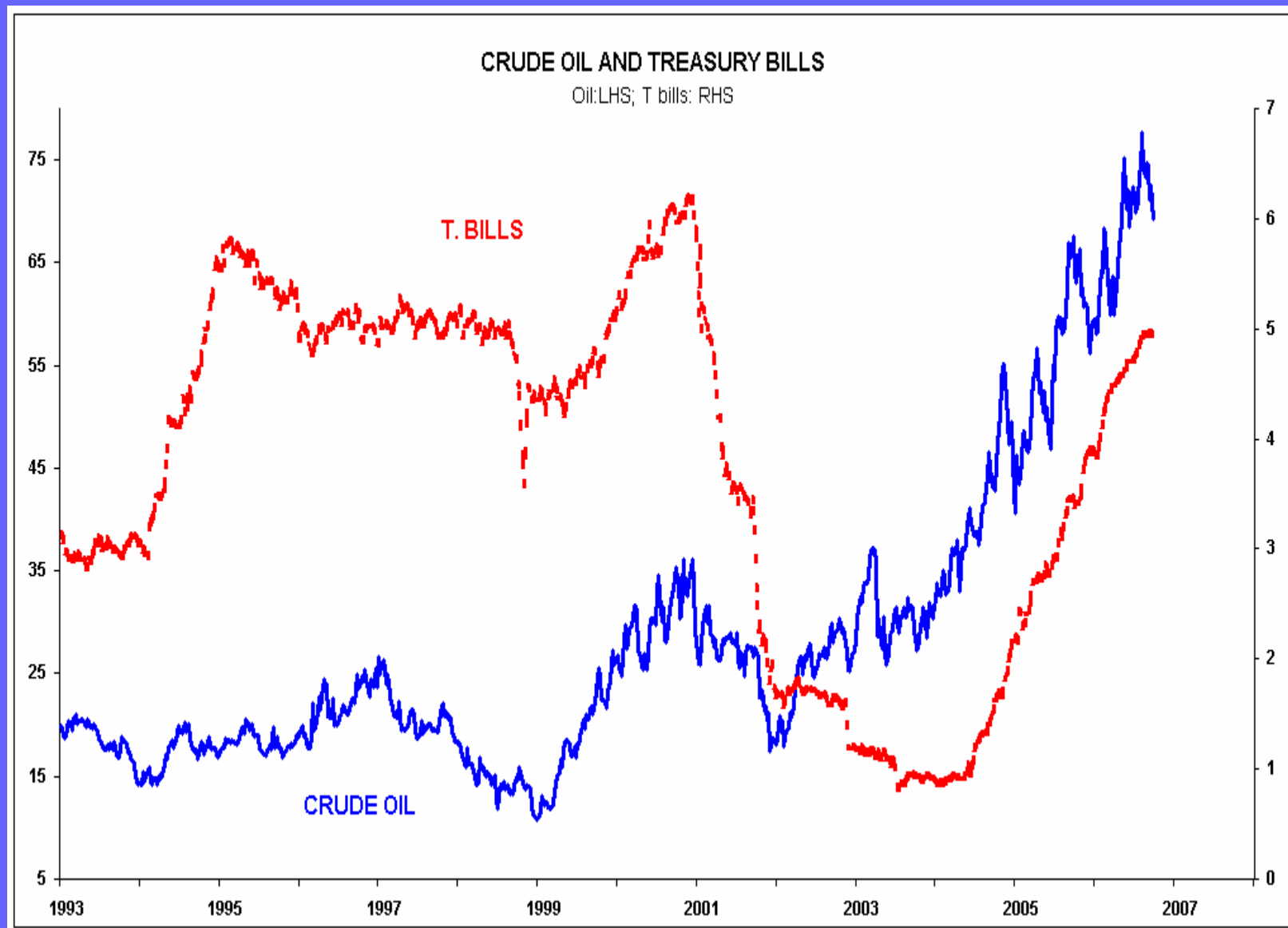


SAME CYCLICAL TURNING POINTS

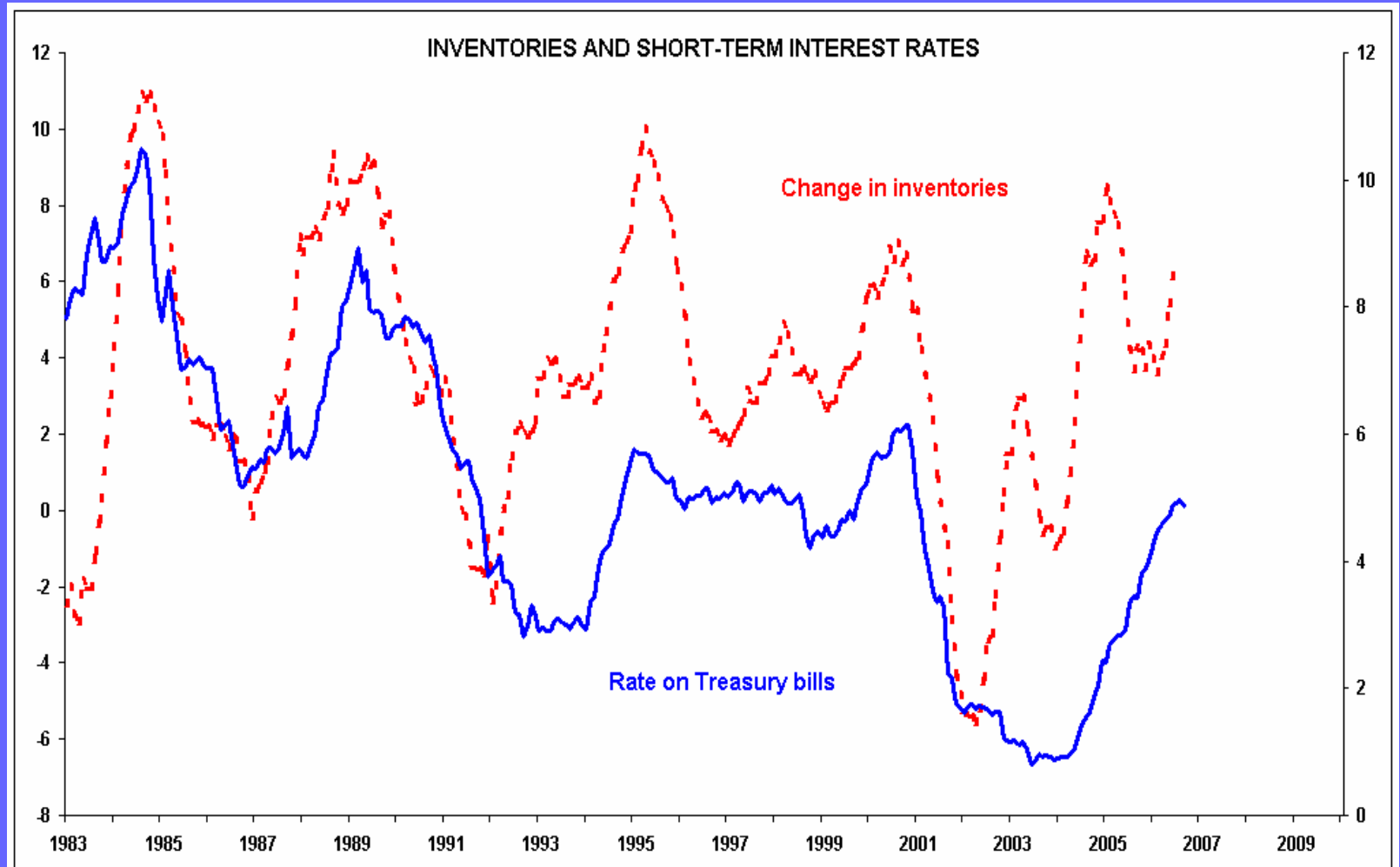




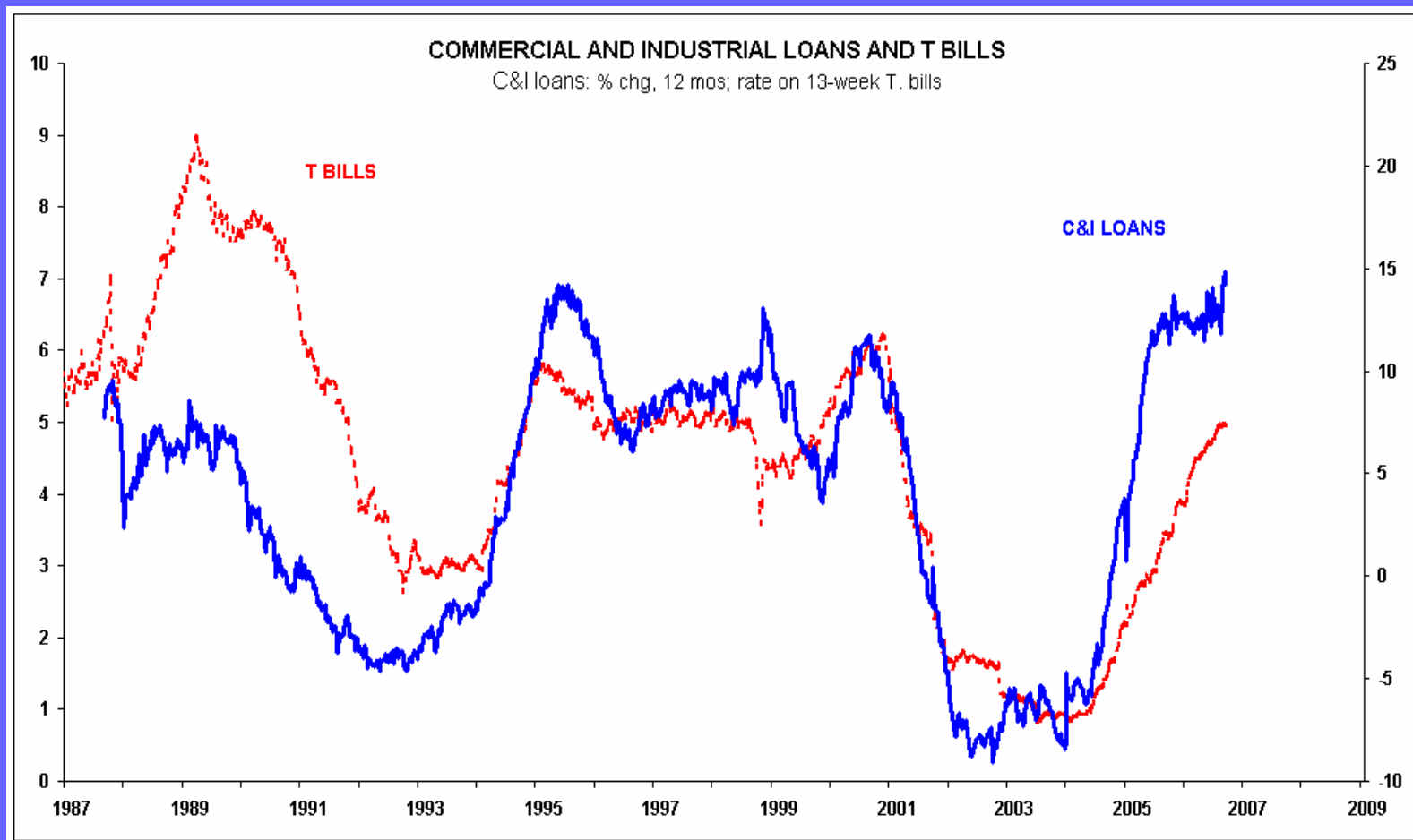




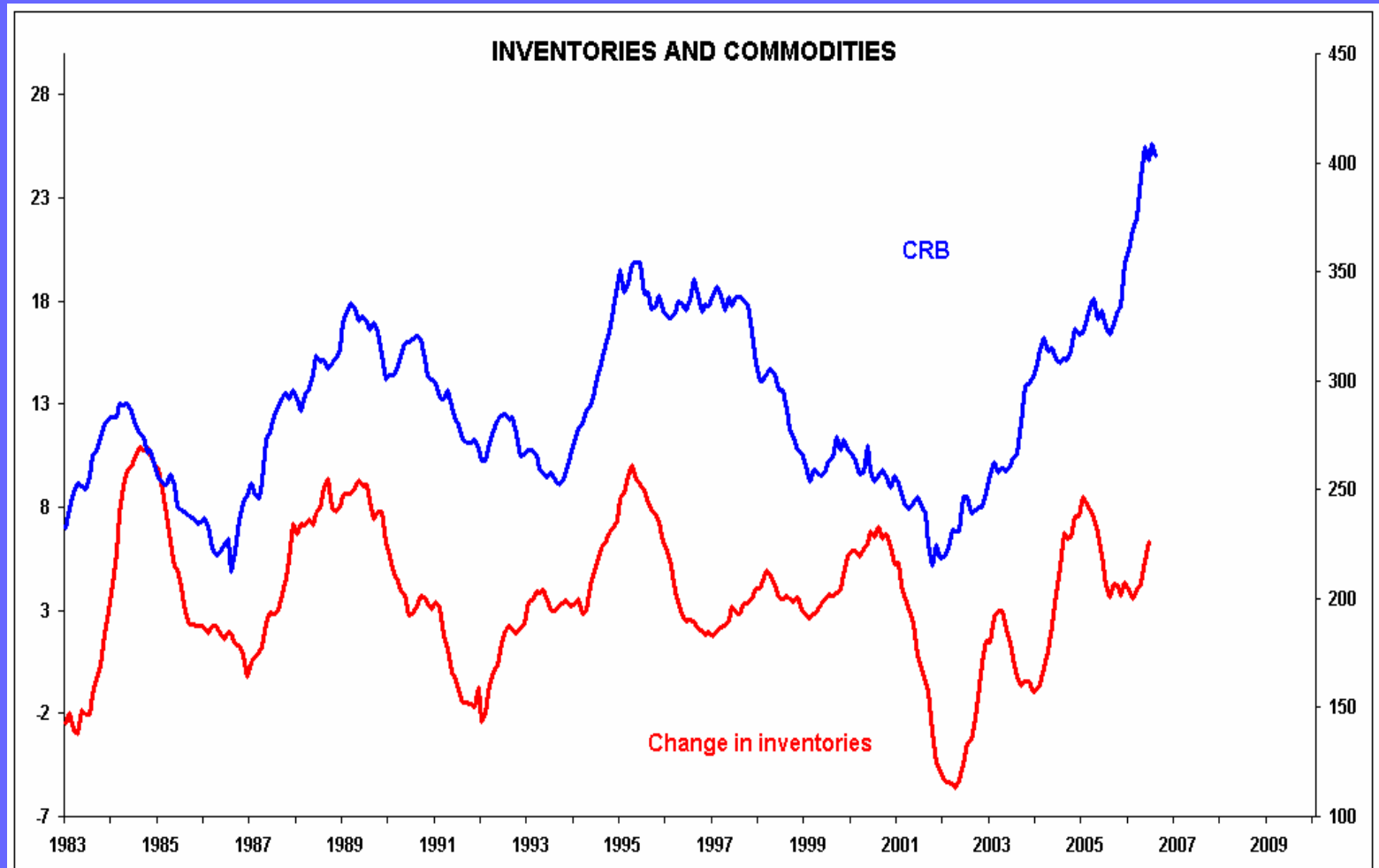
INVENTORIES DRIVE INT. RATES

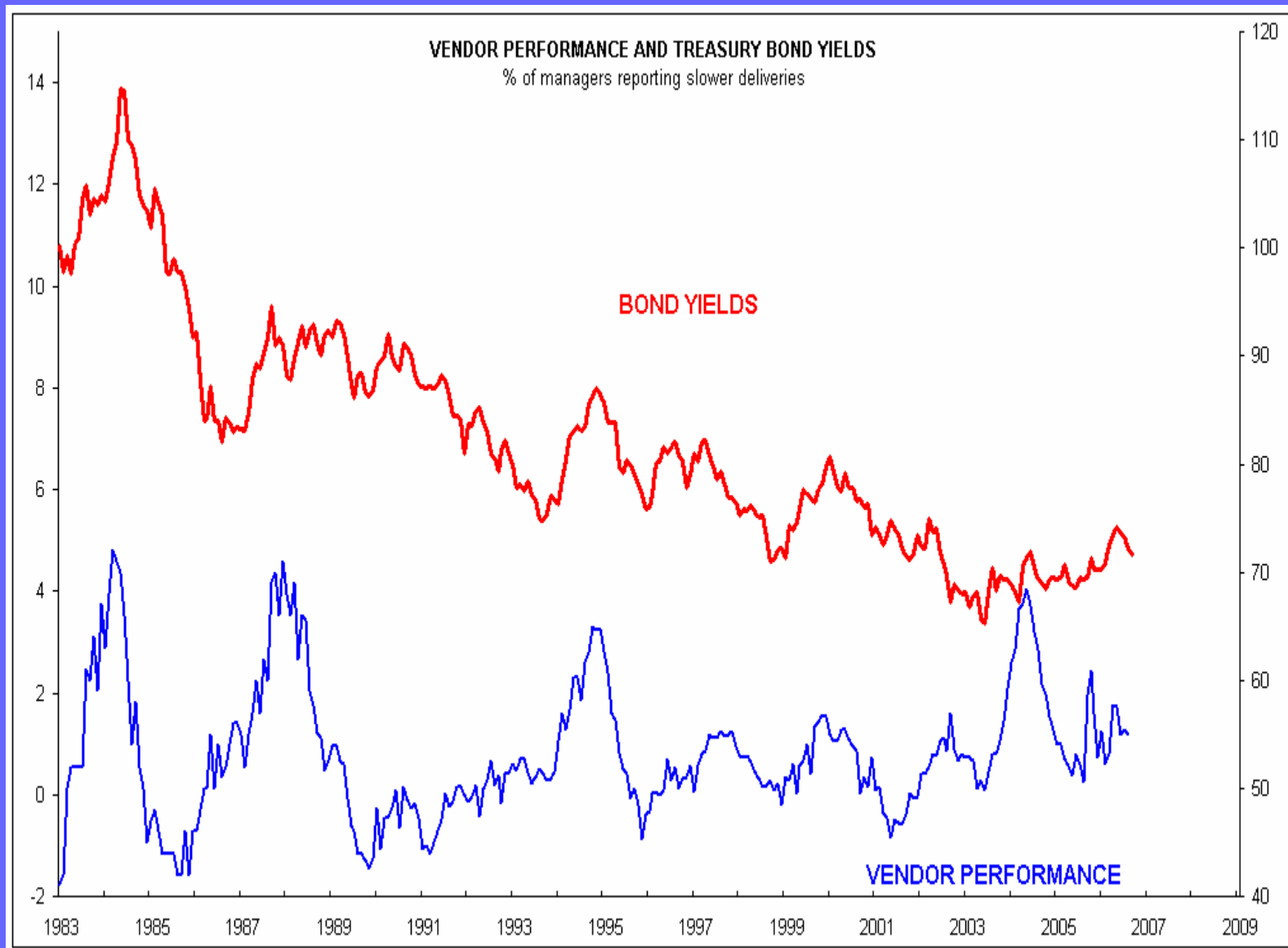


DEMAND FOR MONEY TO FINANCE INVENTORIES DRIVES INT. RATES



PRODUCTION NEEDS (INVENTORIES) DRIVE COMMODITY PRICES





THE POINT

- **THE PRICE OF MONEY AND ALL OTHER COMMODITIES ARE DRIVEN BY THE BUSINESS CYCLE (BUSINESS DEMAND).**
- **EXPECT SLOWER ECONOMIC GROWTH FOLLOWING A RISE IN COMMODITIES, INFLATION, AND S-T INTEREST RATES.**
- **S-T INTEREST RATES , INFLATION, AND COMMODITIES HAVE THE SAME CYCLICAL TURNING POINTS.**

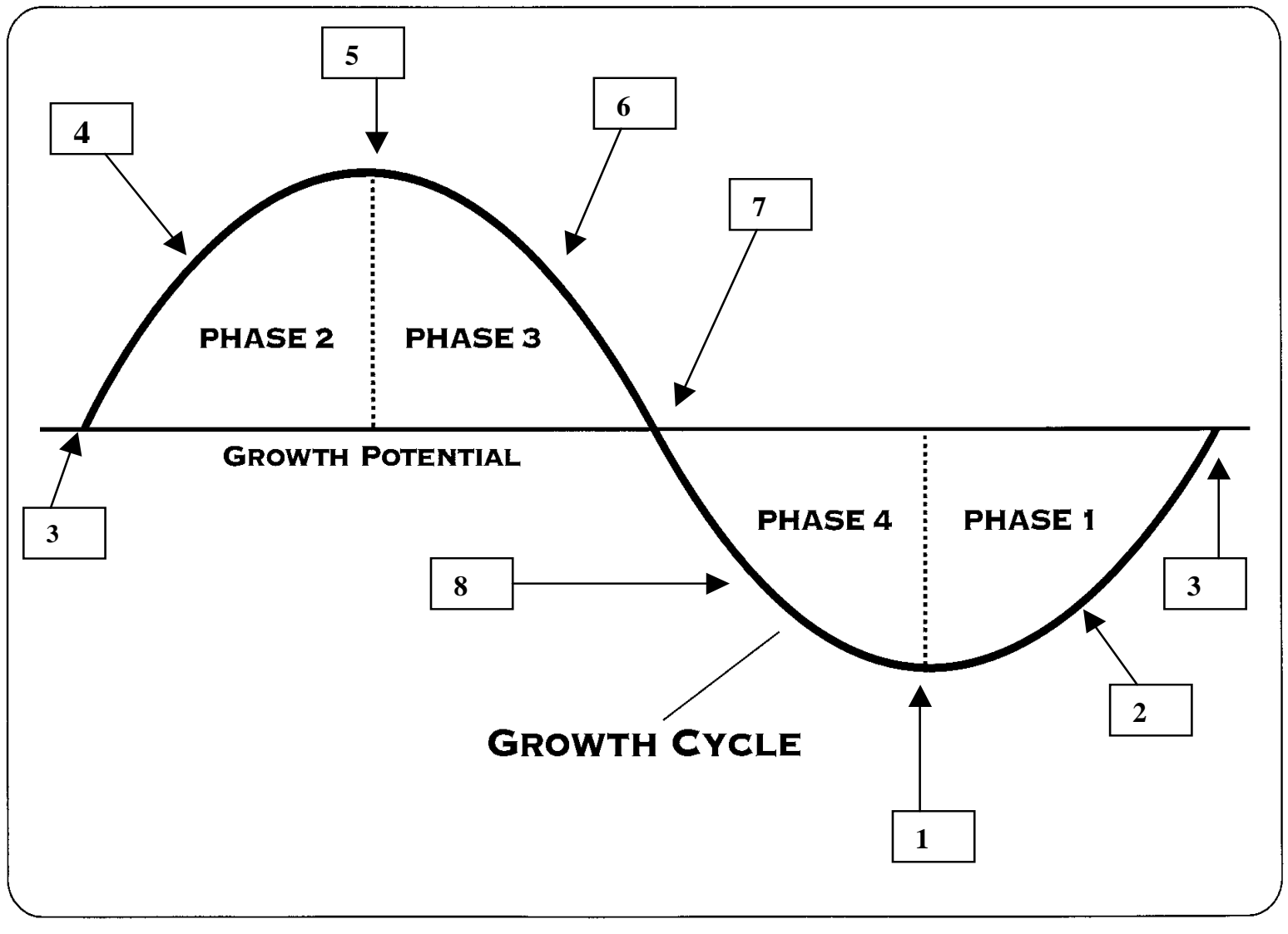
PROFITING IN BULL OR BEAR MARKETS

- Inflationary times
- Disinflationary times

ASSET CLASSES

- STOCK MARKET – LONG
- STOCK MARKET – SHORT
- COMMODITY DRIVEN STOCKS
- FINANCIAL (OTHER) STOCKS
- BONDS – LONG
- BONDS – SHORT

BUSINESS CYCLE



INFLATIONARY TIMES

- **ECONOMY - ABOVE AVERAGE PACE**
- **COMMODITIES/INFLATION RISING**
- **SHORT-TERM INTEREST RATES RISING**
- **BROAD STOCK MARKET WEAK**
- **ASSET CLASSES** (Mining, energy, pipelines, marine transport, propane, containers, packaging, REITs, TIPs)

DISINFLATIONARY TIMES

- **ECONOMY - BELOW AVERAGE PACE**
- **COMMODITIES/INFLATION DOWN**
- **SHORT-TERM INT. RATES DOWN/FLAT**
- **BROAD STOCK MARKET UP**
- **ASSET CLASSES** (Banks, Savings & Loan, insurance, household products (non durable), utilities, technology, high-grade and low-grade bonds)

CURRENT STRATEGIC IMPLICATIONS

**LISTEN TO THE MARKET
MOVE AWAY FROM HARD
ASSETS ...THEY HAVE BEEN
WEAK FOR MANY MONTHS**

COMMODITY CYCLE

1. ECONOMY STRENGTHENS
2. COMMODITIES RISE
3. INTEREST RATES RISE
4. CAPACITY IS ADDED
5. ECONOMY SLOWS DOWN
6. COMMODITIES DECLINE
7. NEW CAPACITY = BIG DECLINE
8. INTEREST RATES DECLINE (SIZE DEPENDS ON PREVIOUS CRISIS)
9. GO TO 1.

INVESTMENT CYCLE OF COMMODITY SECTORS

- THEY BOTTOM WHEN ECONOMY STARTS GROWING FASTER AGAIN
- THEY PEAK WHEN THE RISE IN COMMODITIES AND INTEREST RATES SLOWS DOWN THE ECONOMY (9/05)

Achtung! Attenzione! Attention! Warning!


Watch real short-term interest rates

\$WTIC (Oil - Light Crude - Continuous Contract (EOD)) INDX

@StockCharts.com

8-Sep-2006

Open 69.25 High 69.59 Low 66.00 Close 66.25 Chg -2.94 (-4.25%) ▼

 \$WTIC (Weekly) 66.25

 Volume undef



GLD (streetTRACKS Gold Trust Shares) NYSE

© StockCharts.com

11-Sep-2006 11:06am

Open 58.85 High 59.00 Low 58.00 Last 58.00 Volume 5.9M Chg -2.64 (-4.35%) ▼

GLD (Weekly) 58.00

Volume 5,907,700



XLB (Materials Select Sector SPDR) AMEX

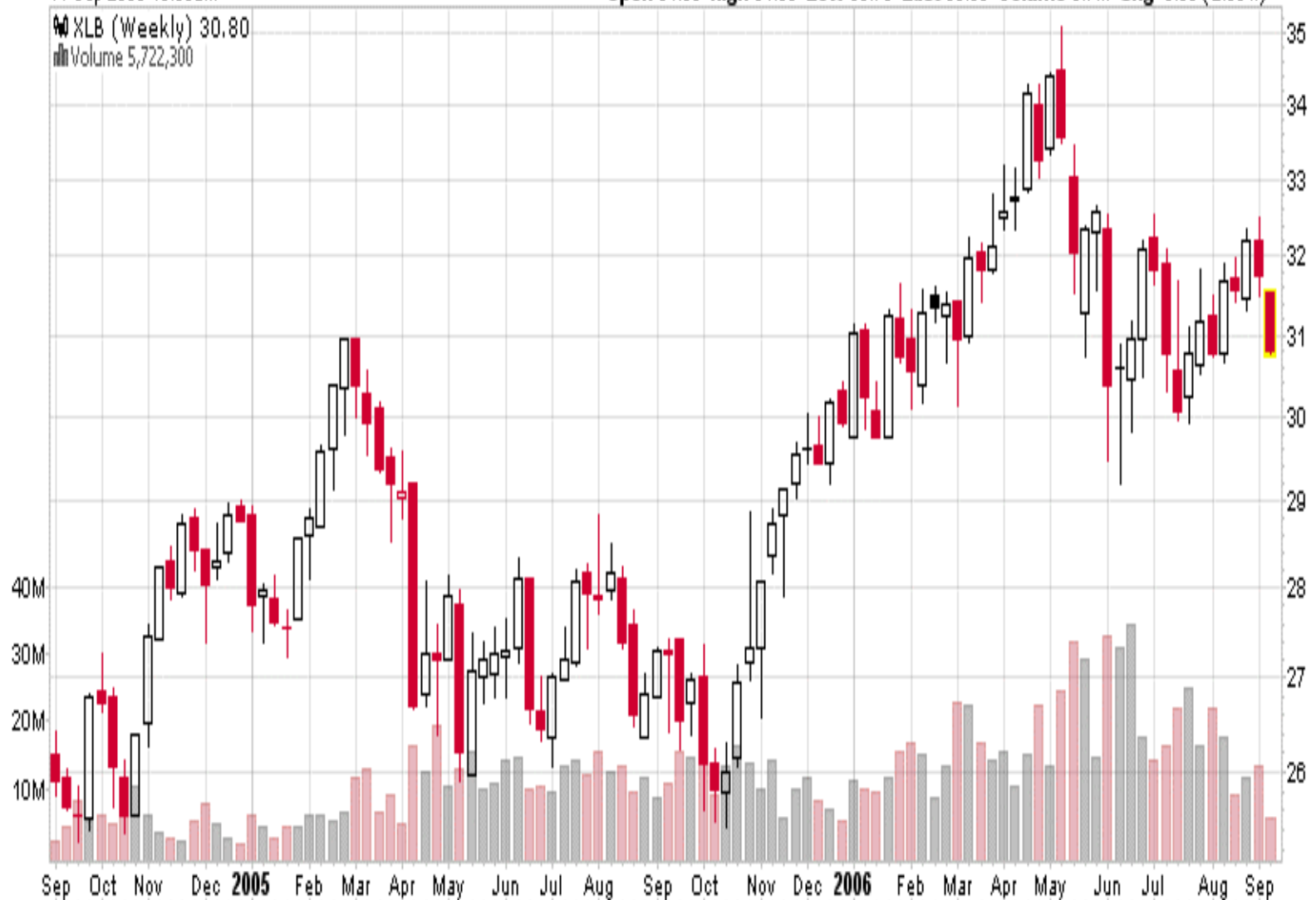
@StockCharts.com

11-Sep-2006 10:59am

Open 31.55 High 31.55 Low 30.76 Last 30.80 Volume 5.7M Chg -0.95 (-2.99%) ▼

XLB (Weekly) 30.80

Volume 5,722,300



TLT (20+ Year Treasury Bond Fund (Leh) iShares) AMEX

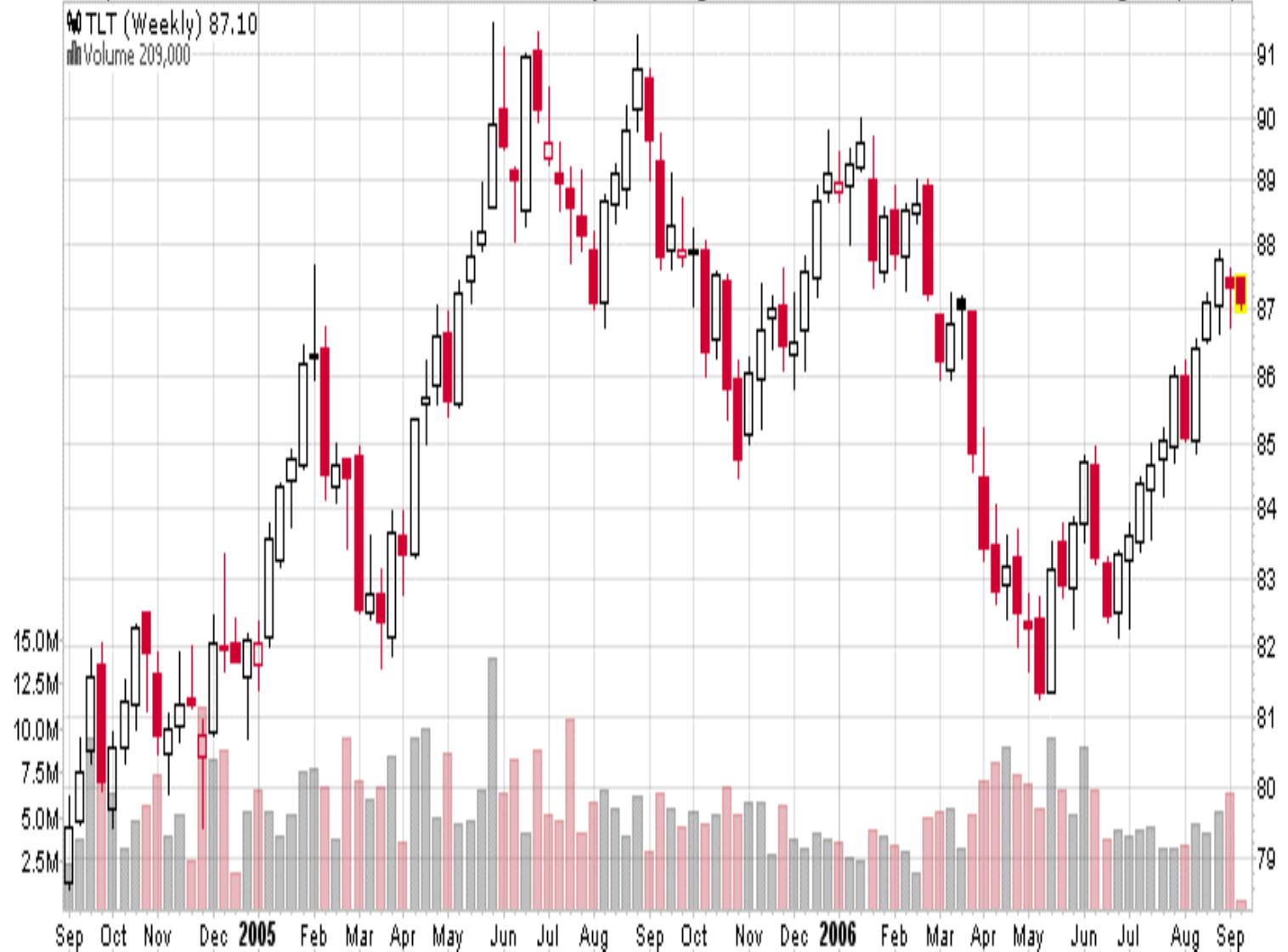
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11-Sep-2006 11:13am

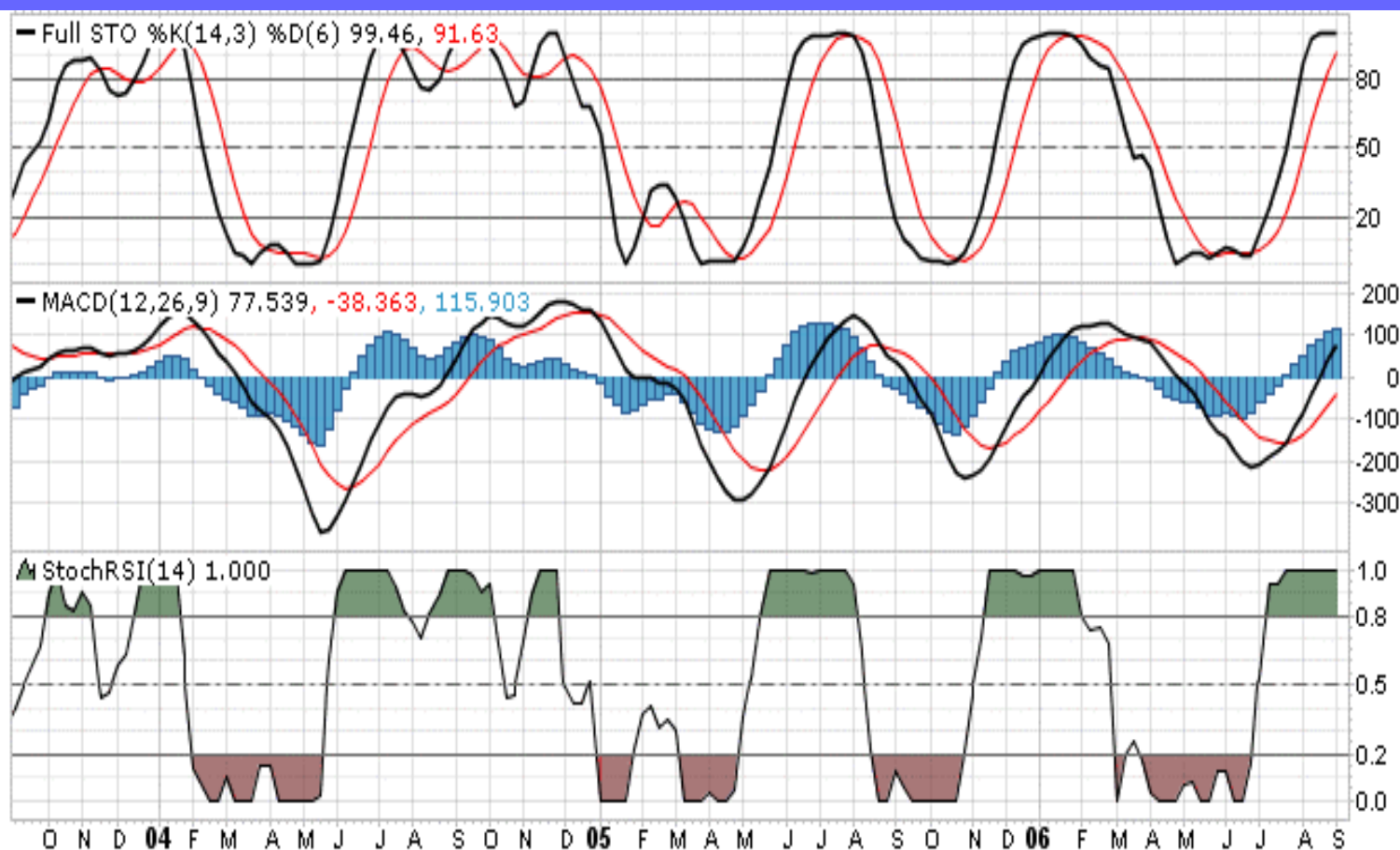
Open 87.49 High 87.49 Low 87.00 Last 87.10 Volume 209.0K Chg -0.23 (-0.26%) ▼

TLT (Weekly) 87.10

Volume 209,000



WHEN WILL THE MARKET PEAK?



KEEP IN MIND

- DIVERSIFICATION = AVERAGE PERFORMANCE
- AVOID ASSET CLASSES NOT IN TUNE WITH BUSINESS CYCLE
- INVEST IN SECTORS BENEFITTING FROM CURRENT BUSINESS CONDITIONS

**DID YOU LIKE
THIS PRESENTATION?**

**I WILL BE DELIGHTED
TO MAKE A
SIMILAR PRESENTATION
TO YOUR
INVESTMENT GROUP**

THANK YOU!

AAII

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