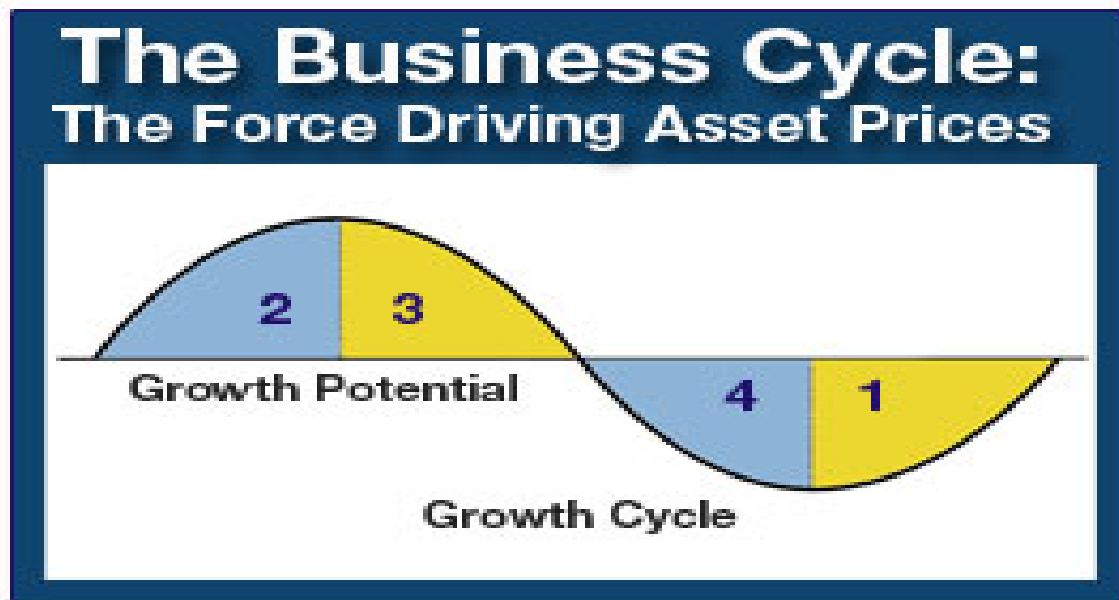


CHART OF THE MONTH: JUNE 2006

Some perspective on where we have been and what is ahead for the markets.

Shown below is my framework to manage money and risk. It is based on the following phases of the business cycle. (The detailed discussion is found by clicking on the same icon shown on our website www.peterdag.com.)



In phase 1

- The economy has been growing at a below average pace.
- Business activity picks up gradually stimulated by lower commodities and interest rates,
- The stock market remains strong.
- The strong sectors are financial stocks and bonds.
- It is quite typical for the dollar to be strong.
- The yield curve steepens during such times.

In phase 2

- The economy continues to strengthen and begins to grow at an above average pace.
- Commodities and interest rates bottom and then rise.
- The stock market is strong.
- Commodity sensitive sectors outperform the market.
- Bonds and financial stocks underperform.
- The dollar remains firm.
- The yield curve begins to flatten.

In phase 3

- The economy remains strong and slows down toward the end of this phase.
- Interest rates and commodities continue to rise. They peak toward the end of this phase.
- The broad market begins to act poorly as it reaches a cyclical top.
- Commodity sensitive stocks begin to act poorly toward the end of this phase.
- Very few stock sectors show strength.
- The dollar acts poorly.
- The yield curve continues to flatten.

In phase 4

- The economy continues to slow down and grows at a below average pace.
- Interest rates and commodities stop rising and decline.
- The broad stock market strengthens as it reaches a cyclical bottom.
- Financial stocks and bonds outperform the market.
- Commodity sensitive stocks underperform the market.
- The dollar strengthens.
- The yield curve steepens.

Phase 4 sets the stage for phase 1 of the business cycle and the beginning of a new cycle in financial assets.

Where do we stand?

We are in the most critical phase of the business/financial cycle: **end of phase 3.**

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