Steeplechase Investments

Volume 8 Issue 4 October, 2004

Maybe yes, maybe no. Will the market go up or will the market go down? Will Georgie Porgie win or will he lose? Will the "unfit to command" man triumph or perish? Will the price of "black gold" continue to scale unprecedented heights or will it plummet? Will earnings continue to rise or will they fall? Will housing continue its ascent or fall back to earth? Teeter Totter, teeter totter! It would seem that there is no conviction to be found anywhere about anything. It is not that there is more uncertainty in the air, it just seems so. The adage about the market not liking uncertainty is surely true because the market is made up of "me and you and a dog named Blue". Human beings are what make up the stock market and human beings do not like uncertainty. There is $1.4 trillion in bond funds at this point! To give you an idea, that is about 7 times the $200 billion that was "invested", and I use that term loosely (looser than one of Oprah's size 24 after her many new age diets) that was invested in technology funds at the top of the market bubble in 2000! As we have discussed before, the masses are <u>never</u> right.

The correction is over. We switched from a capital preservation stance to a capital appreciation mode about two weeks ago. We have had big cap laggard type of stocks for safety reasons the last 9 or so months in our portfolios. We are and have been purchasing more high growth, high octane, high relative strength, and high beyta stocks. It will not exactly be a 52 card pickup, but the stocks that are not producing solid returns will be pitched out and replaced with "Ricky Henderson" type stocks. When a market is in a correction phase there is no reason to be in stocks that are going to go down more than the market itself. I believe from the behavior I have seen in the last 6 weeks that the market is ready to make a run. The big institutions are beginning to buy, the charts are looking constructive, and seasonally we are in a bullish time. Over the last 100 years, the trend has been bullish during the October through April time frames. 4th year of a presidential term is also usually bullish. So fasten your safety belts. We are gonna go for a ride. The market is poised to go from 0 to 60 in a blink. If I am right, strength should beget strength in this market cycle. The market has seen a decent size up tick in volume and the adage "volume proceeds price" has always been one of our key indicators. We are seeing big volume reversals in a number of stocks and many industries across the board.

You will find that most of us were down around 2% at the end of the 3rd quarter. This number is a little bit skewed. Merck, on of our holdings on the last day of the quarter had a major recall of one of their drugs and caused the stock to go down 27% in one day! This took approximately a 1% bite out of each account. As of this writing, the market has begun to rally and we are about even for the year. I think we are positioned to have a very nice 4th quarter.

We sell some of the laggards now? Because they have done the job they were acquired for. They have smoothed out the portfolios during this correction. I believe that the "path of least resistance" is now upward. So, it is time to come out of the prevent defense and get more aggressive.

Onward and upward.

Ed

Speculation in its truest sense, calls for anticipation

–Richard Wyckoff

The word "crisis" in Chinese is composed of two characters: the first, the symbol of danger; the second, opportunity,

–Anonymous