



Safian Investment Research

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The Safian Investment Research Composite Forecasting Index™

Total Index: 262.9, down 0.7% from March, up 1.8% from a year ago.
Of 26 Components: 7 up, 19 down, (Diffusion Index: 1 month: 27%)

Real CFI: 204.3, down 1.5% from March, down 1.0% from a year ago.
Of 16 Components: 2 up, 14 down (Diffusion Index: 1 month: 12%)

(May 2011 preliminary series: 3 up, 10 down, 1 unchanged page 8)

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Our Composite Forecasting Index (CFI) fell 0.68% in April, its third consecutive decline, to 262.95, but was up 1.82% from a year ago. (This series recorded a three month consecutive drop of 1.82% from May 2010 to August 2010 which coincided with a 17% drop in the S&P 500 Index. The recent drop in the CFI from January 2011 to April 2011 was 1.34%). The CFI rose 1.82% for the year ended April, its lowest year over year percentage change since October 2010. At that time, however, the momentum for the CFI was up which has not been the case in recent months as measured by the year over year percentage change. Finally, the three month Diffusion Index is also at its lowest level, 47.4%, since May 2009 (see page 2). Put more simply, The CFI was overbought in 2010 as measured by both the year over year percentage change and the three month Diffusion Index. Therefore, it is now losing upward momentum which can develop into a recession signal (see page 5 for recession signals).

The Real CFI, which excludes the Financial and Monetary groups, recorded a 1.54% setback in April and a 12% Diffusion Index since only two of the 16 series rose in the recently reported month. That April drop was the largest monthly setback since January 2009 and the monthly Diffusion Index of 12% was the lowest since December 2008. As can be seen on page 3, this Real CFI series has made no progress since June 2010. Certainly, this is a very different trend compared to the Total CFI on page 2. The comparison between the Total CFI and the Real CFI continues to illustrate the strength in the financial sector of the economy. Even though the banks and other financial companies have performed poorly, U.S. stock prices generally and the relationship of U.S. equity prices to world stock prices have performed well.

In other words, the low interest rates environment created by the Financial Reserve has resulted in stronger financial results. This is the case even though bank stocks have done poorly. Certainly, nonfinancial equity prices have done better than collective financial sector equity prices. We continue to emphasize the importance of the ratio of the Real CFI to the Total CFI and we believe the Federal Reserve is making a terrible error by not seeing this relationship. There must be other ways the Fed can stimulate the economy without emphasizing reduced rates and stock market speculation. (Please see page 4).

Component Groups – These figures clearly reflect the shortcomings of the Federal Reserve’s extremely easy monetary policies. Stock prices have done better than the real economy and that includes the strong corporate profits of nonfinancial corporations that are benefitting from their foreign corporate profits. Furthermore, financial corporations that are not banks have done well in certain areas. Certainly, insurance, money management and other non-bank financial corporations have made progress since the 2010 initial rebound in equity values. Another point that illustrates this condition is the diversity within the economy that can be seen from the component groups of our CFI (see page 7). While all the nonfinancial components of the CFI were down in April, they have bounced off their 2009 lows.

Please appreciate that these component group series are not trend adjusted, so they have remained within ranges. However, three of the four component groups (excluding the financial group) fell to new historic lows or reached their old lows. This suggests extreme weakness because these series are not trend adjusted. The Macroeconomic Group, which rebounded in 2009 – 2010, fell after that rise and was a key factor in our belief that a major long lasting bull market was no longer at hand. The Financial Group is benefitting greatly from stock prices and continued Federal Reserve policies. Readers should appreciate the strong components of the Financial Group have been caused by stronger stock prices around the world and the relative strength of U.S. stock prices in relation to foreign stock prices.

May Estimates – The components for our CFI are on page 8 and 14 components were available for May as of this date. As can be seen, 3 series rose, 10 fell, and 1 was unchanged in May. This reflects continued softness in business conditions for May, unless revisions or exceptional strength occurs in the items not reported as yet.

Conclusion:

Investors now have to be alert because further weakness in business conditions can create a recession signal for our CFI. Please see page 5 for the signals for a recession. As our readers know, we have been keeping the CFI since 1984 and we don’t put emphasis on signals before that period since hindsight was being used when we first developed the CFI in February 1984. Since 1984 in real time, there have been three recession signals and only three recessions have occurred.

In our judgment, if this series is going to be wrong now, we could understand that situation since political conditions are so important. Needless to say, we are now closer to a recession signal. Keep posted and let’s hope for better decisions by the Administration, the Congress and the Federal Reserve. We believe these folks have been the major cause of our nation’s problems in recent months. Stay tuned and feel free to ask any questions since we understand that the technical aspects of leading series can be complex.

Lorraine Corbett
Economic Consultant

Ken Safian

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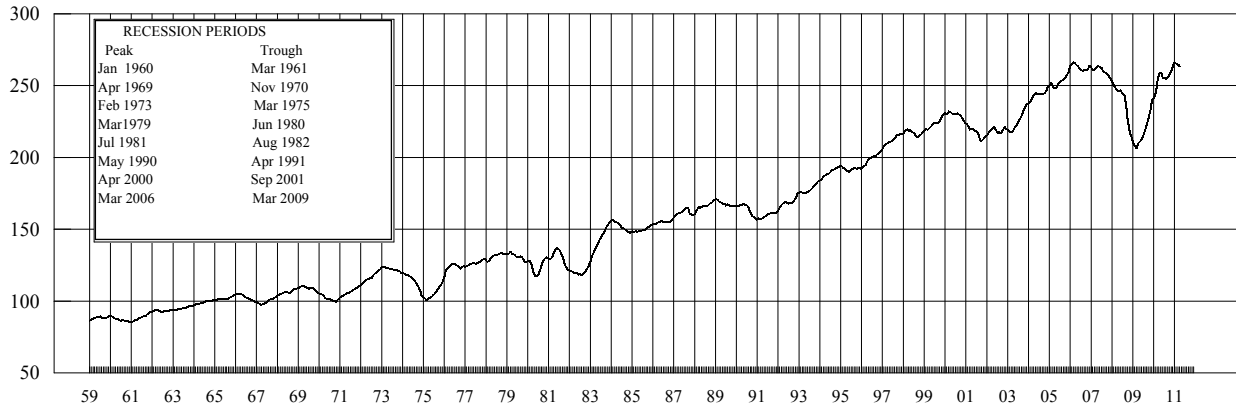
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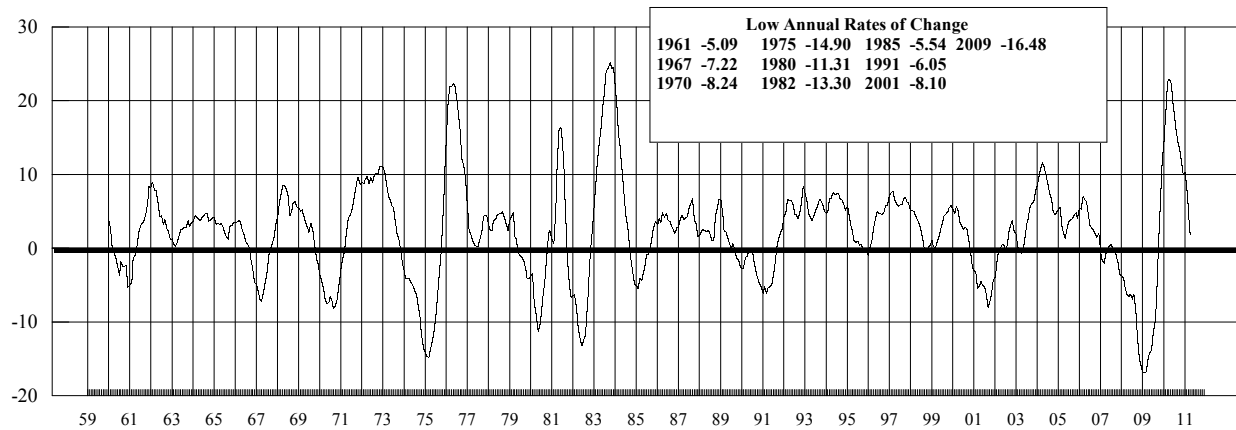
**SAFIAN INVESTMENT RESEARCH
COMPOSITE FORECASTING INDEX**

INDEX



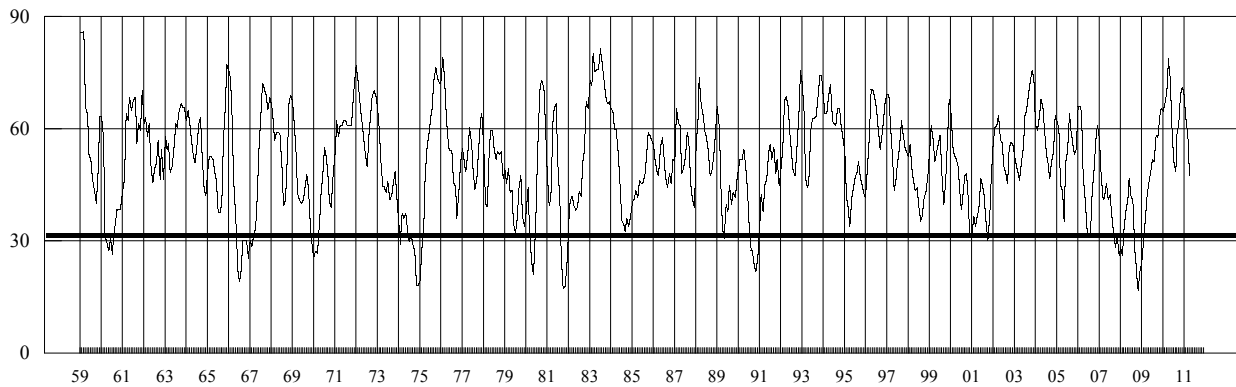
PERCENT

YEAR TO YEAR PERCENT CHANGE



PERCENT

DIFFUSION INDEX - 3 MONTH MOVING AVERAGE

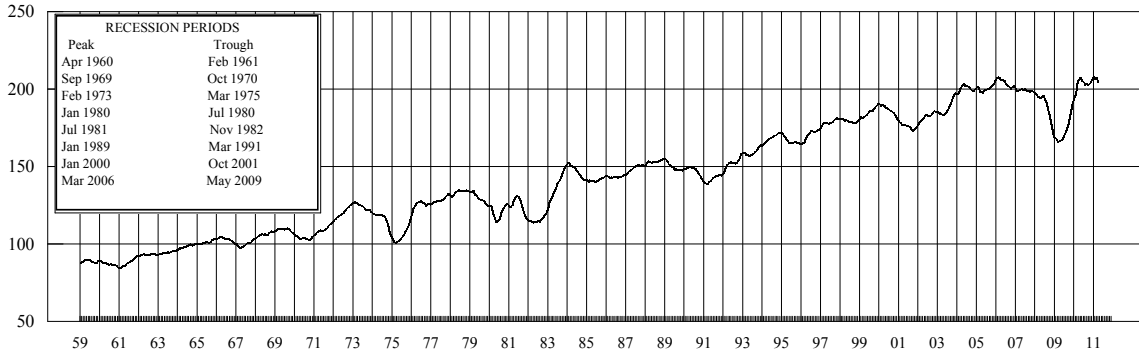


Data plotted through April 2011

Our earlier reports pointed out the strong annual rate of growth for both the total CFI and the Real CFI (see page 3). We compared that to the 1976 and 1984 periods when similar advances occurred which were followed by a slower rate of gain. This condition is now occurring as we expected.

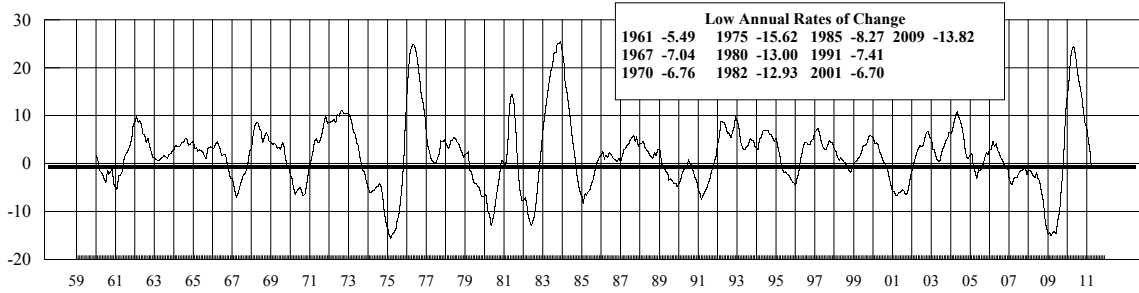
**REAL COMPOSITE FORECASTING INDEX
(EXCLUDING FINANCIAL & MONETARY SECTORS)**

INDEX



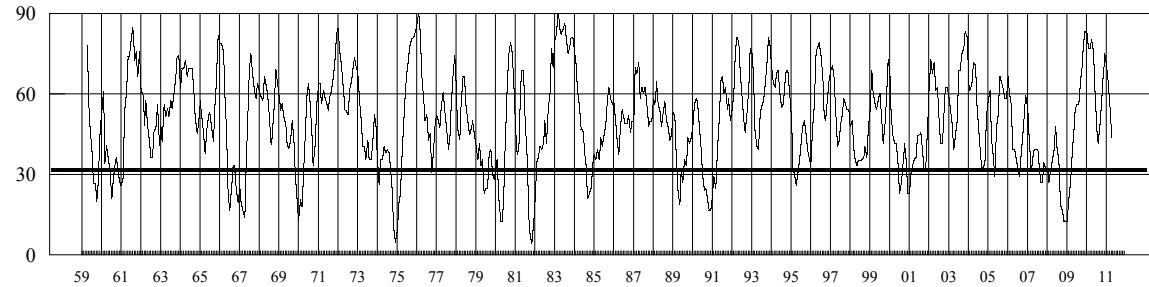
PERCENT

YEAR TO YEAR PERCENT CHANGE



PERCENT

DIFFUSION INDEX - 3 MONTH MOVING AVERAGE



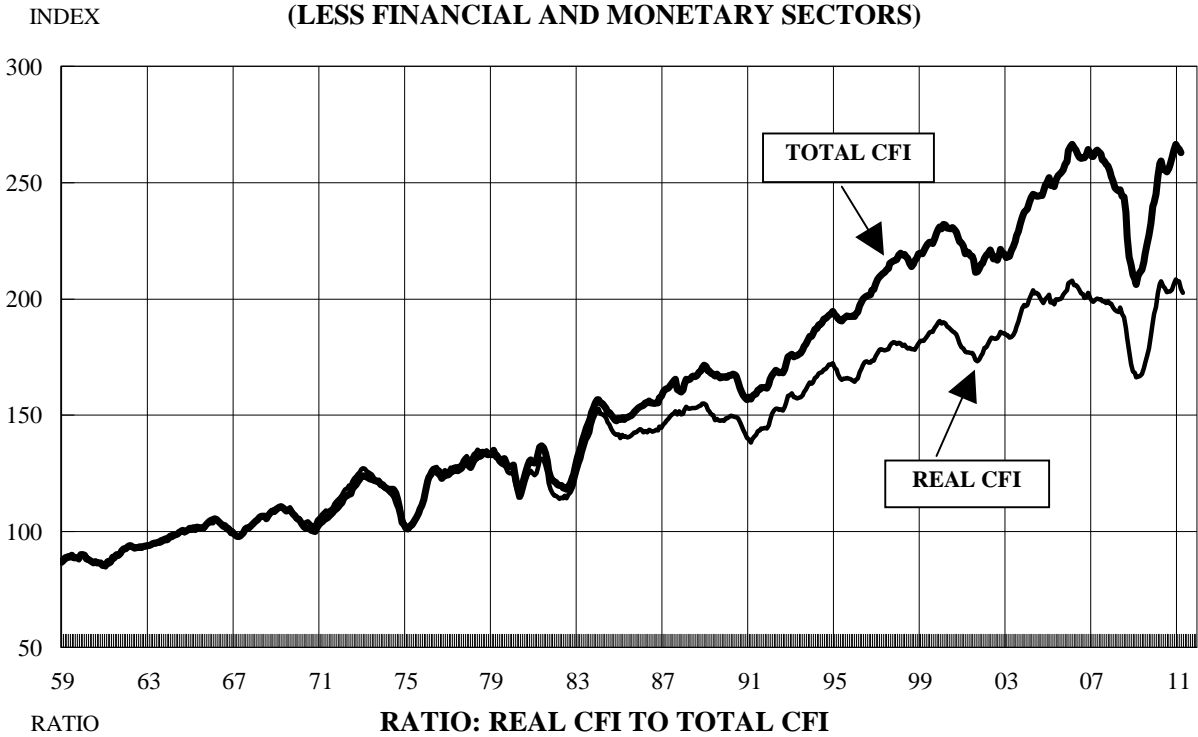
Data plotted through April 2011

	APR 2010	FEB 2010	MAR 2011	APR 2011
TOTAL INDEX (1967=100)	206.40	207.07r	207.49r	204.29p
Monthly Percent Change	1.76	-0.49r	0.20r	-1.54p
Year/Year Percent Change	23.89	5.29r	2.30r	-1.02p
DIFFUSION INDEX (%)*				
1 Month Span	78.13	50.00r	62.50r	18.75p
3 Month Moving Average	80.21	64.58r	56.25r	43.75p
6 Month Moving Average	81.77	65.63r	65.63r	57.29p

*This Index represents the percentage of components advancing each month with a one half weight given for unchanged series.

SEE PRIOR PAGE

**TOTAL COMPOSITE FORECASTING INDEX AND
REAL COMPOSITE FORECASTING INDEX
(LESS FINANCIAL AND MONETARY SECTORS)**



Data plotted through May 2011
Source: Safian Investment Research Inc.

Government policy has had a major impact on this ratio. The continued decline in this ratio recently suggested increased chances for renewed financial speculation, a condition investors should not like to see, but have seen. Government policies must now be revised. This is a critical period in our judgement and financial indicators have continued to outperform real economic series.



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Historic Trends for Our Real Composite Forecasting Index

According to our Composite Forecasting Index (CFI), which we first introduced in February 1984 but ran the series back to 1959, a recession was signaled when: 1) there were five consecutive monthly declines with a three-month Diffusion Index of 30%, or 2) a 5% year-over-year decline with a three-month Diffusion Index of 30%. Signals are subject to our interpretation when the total CFI and Real CFI both do not confirm a recession. The Table shows the peaks and troughs for the Real CFI for those recession periods. In 1984 and 1989 and 1995 the Total CFI and the Real CFI did not confirm each other. We have placed more emphasis upon the Real CFI since banking deregulation skewed many monetary series and emphasis upon monetary policy created more financial speculation and volatility in equity prices. The Real CFI, which excludes monetary and stock market data, was first introduced in December 1987. Our Composite Forecasting Index and related series successfully predicted the 1990 recession, the 2001-2002 recession, and we called the 2008-2009 recession in July of 2007.

Real Composite Forecasting Index				
<u>Peak</u>		<u>Recessions Trough</u>		<u>% Decline from Peak to Trough</u>
2/1960	89.33	2/1961	84.45	-5.5%
4/1966	104.93	4/1967	97.56	-7.0%
9/1969	110.47	10/1970	102.49	-7.2%
2/1973	127.16	3/1975	100.70	-20.8%
3/1979	134.97	6/1980	114.63	-15.1%
6/1981	131.30	8/1982	114.29	-12.9%
2/1984	152.84	2/1985	140.23	-8.3% *
1/1989	155.17	12/1989	147.54	-4.9% *
1/1989 **		3/1991	138.15	-10.9%
1/1995	172.25	1/1996	164.53	-4.5% *
1/2000	190.70	10/2001	173.24	-9.1%
3/2006	207.89	3/2009	166.27(L)	-20.0%
<u>Trough</u>		<u>Expansions Peak</u>		<u>% Increase from Trough to Peak</u>
2/1961	84.45	4/1966	104.93	24.2%
4/1967	97.56	9/1969	110.47	13.2%
10/1970	102.49	2/1973	127.16	24.1%
3/1975	100.70	3/1979	134.97	34.0%
6/1980	114.66	6/1981	131.25	14.5%
8/1982	114.34	2/1984	152.76	33.6%
8/1982	114.34	1/1989	155.17	35.7%
3/1991	138.18	1/1995	172.25	24.7%
3/1991	138.18	3/2000	189.85	37.3%
10/2001	173.24	3/2006	207.89	19.8%
3/2009	166.27(L)	5/2010	207.71 (C)	24.9%
3/2009	166.27(L)	1/2011	204.29(CM)	22.9%

*All data did not confirm recession. **CM = Current month C = All time series high.**
 This recession unfolded in two stages. **L = Most recent series low.
 Please note there were revisions made in some of the CFI series due to the 2003 major NIPA revisions causing different figures in earlier years.



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Historic Trends for Our Composite Forecasting Index

Composite Forecasting Index				
<u>Peak</u>		<u>Recessions Trough</u>		<u>% Decline from Peak to Trough</u>
12/195	90.17	12/1960	85.40	-5.3%
3/1966	105.41	4/1967	97.66	-7.4%
4/1969	110.63	11/1970	99.85	-9.7%
2/1973	124.02	3/1975	101.08	-18.5%
3/1979	134.83	6/1980	117.63	-12.8%
6/1981	136.94	8/1982	118.06	-13.8%
1/1984	156.78	2/1985	148.06	-5.6% *
1/1989	171.52	12/1989	166.30	-3.0% *
1/1989 **		1/1991	156.63	-8.7%
1/1995	194.58	7/1995	191.70	-1.5% *
3/2000	232.19	10/2001	228.93	-1.4%
3/2006	266.62	3/2009	206.33(L)	-22.6%
<u>Trough</u>		<u>Expansions Peak</u>		<u>% Increase from Trough to Peak</u>
12/1960	85.40	3/1966	105.41	24.2%
4/1967	97.66	4/1969	110.63	13.2%
11/1970	99.85	2/1973	124.02	24.2%
3/1975	101.08	3/1979	134.83	33.4%
6/1980	117.63	6/1981	136.94	16.4%
8/1982	118.06	1/1984	156.78	33.8%
2/1985	148.06	1/1989	171.52	15.8%
12/1989	166.30	1/1995	194.58	14.5%
1/1991	156.63	1/1995	194.58	19.5%
7/1995	191.70	3/2000	232.06	19.8%
10/2001	228.93	3/2006	266.28 (C)	16.3%
3/2009	206.33(L)	1/2011	262.95(CM)	27.4%

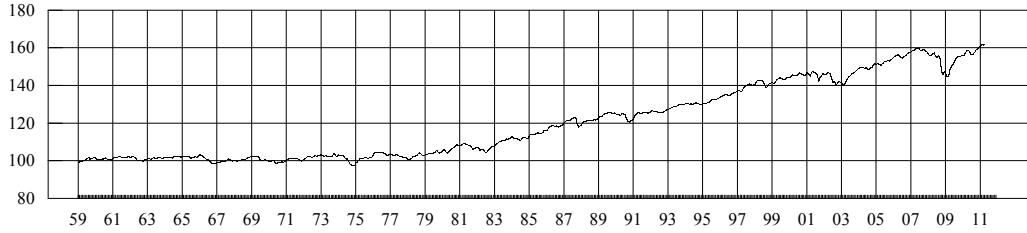
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This recession unfolded in two stages. **L = Most recent series low.
Please note there were revisions made in some of the CFI series due to the 2003 major NIPA revisions causing different figures in earlier years.

These are the peak to trough and trough to peak results for our Total CFI.

COMPONENT GROUPS

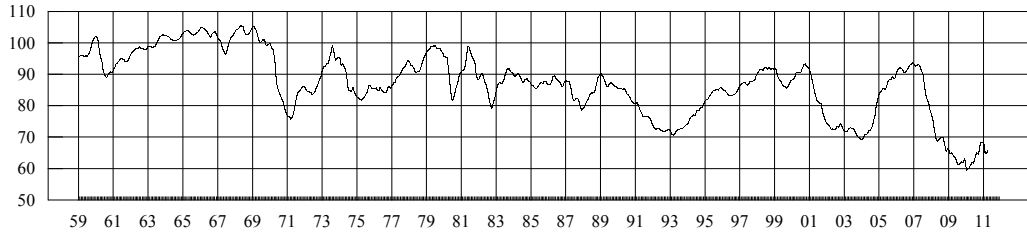
FINANCIAL - 25.2% of Total CFI

(Up 0.53% from March)



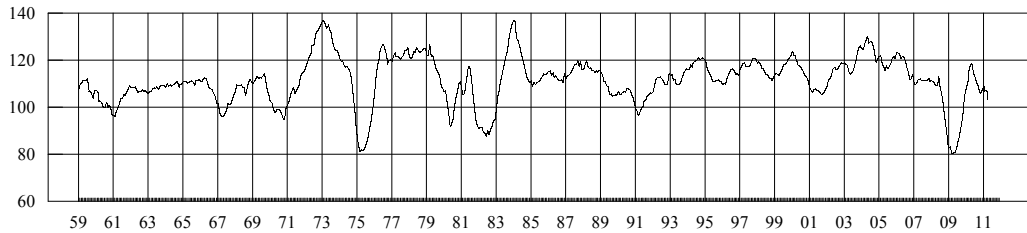
MONETARY - 15.9% of Total CFI

(Up 1.43% from March)



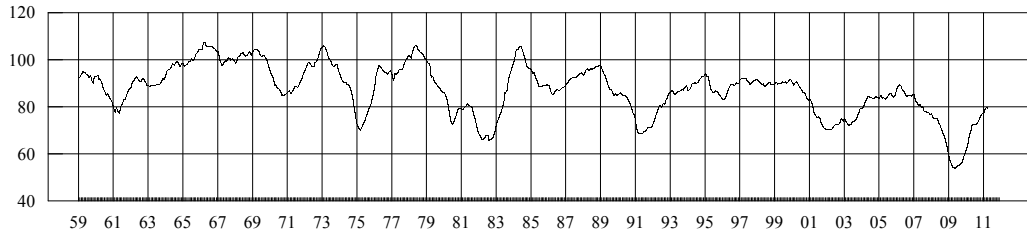
MACROECONOMIC - 33.6% of total CFI

(Down 3.69% from March)



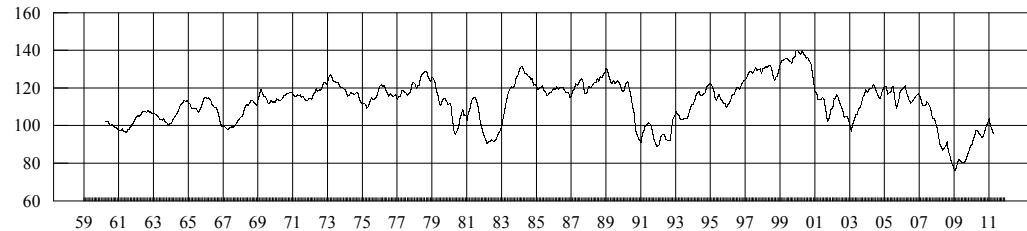
LABOR - 15.9% of total CFI

(Down 1.01% from March)



CONSUMER ATTITUDE - 9.4% of Total CFI

(Down 2.09% from March)



Data plotted through April 2011

These component groups continue to illustrate mixed patterns within these economic sectors. The results showed the Labor Group to be the strongest in March but it was down in April. Interestingly, the Consumer Attitude Group was the weakest. As we expected, this is a very mixed economic period. The Financial Group remains relatively strong due to low interest rates and strong stock prices. The Macroeconomic Group has weakened in recent months and this has been the recent recession force.

The Safian Investment Research Composite Forecasting Index™

	APR 2010	FEB 2010	MAR 2011	APR 2011
TOTAL INDEX (1967=100)	258.25	264.99_r	264.74_r	262.95_p

Monthly Percent Change	2.14	-0.61 _r	-0.09 _r	-0.68 _p
Year/Year Percent Change	22.97	8.15 _r	4.71 _r	1.82 _p

DIFFUSION INDEX (%)*

1 Month Span	80.77	51.92 _r	63.46 _r	26.92 _p
3 Month Moving Average	78.85	62.82 _r	58.33 _r	47.44 _p
6 Month Moving Average	71.79	66.03 _r	64.74 _r	58.01 _p

*This Index represents the percentage of components advancing each month with a one half weight given for unchanged series.

COMPONENTS:

	SERIES WEIGHT	APR	FEB	MAR	APR	NET EFFECT	MAY 2011	NET EFFECT
		2010	2010	2011	2011			
FINANCIAL (INDEX 1967=100)	158.96	162.11	161.40	162.26			161.69	
Value Line Arithmetic Index ***B	2.10	2620.72	3021.70	2996.85	3092.58	1.14	3056.37	-0.48
Index Of Technical Indicators	0.44	100.86	100.94	101.02	100.99	-0.03	100.94	-0.05
Divergence Ratio: Value Line Index to Index of Foreign Mkts	0.20	3.0682	3.1406	3.4206	3.35	-0.19	3.4914	0.36
Index Of Foreign Stock Markets***B	0.74	854.16	962.15	876.11	923.93	1.38	875.39	-1.40
Total Weight	3.48							
MONETARY (INDEX 1967=100)	61.31	65.01_r	64.94_r	65.87				
Money-Supply M2 (%)	0.30	1.63	4.12	4.64	4.89	0.21		
3 Month T-Bill / 10 Yr Bond***	0.50	0.037	0.042	0.036	0.027	-0.22	0.210	-0.13
3 Month T-Bill less Fed Funds Rate***	0.25	-0.023	-0.030	-0.033	-0.040	-0.01	-0.043	-0.01
3 Month T-Bill (%)	0.25	0.00	18.18	-40.00	-62.50	-0.76	-62.50	0.00
Financial Commercial Paper Outstanding(%)**	0.60	-23.06	-13.60	-7.80	0.14	2.09	0.14	2.09
Consumer Installment Credit, Leasing and Home Equity Loans (%)	0.30	-3.28	-1.57 _r	-1.29 _r	-1.20 _e	0.01		
Total Weight	2.20							
*MACROECONOMIC ACTIVITY (INDEX 1967=100)	118.50	106.99_r	107.34_r	103.38				
Housing Starts (000's Ann. Rate)	0.70	687.00	518.00 _r	585.00 _r	523.00	-1.15		
Housing Permits (000's Ann. Rate)	0.70	632.00	534.00	574.00 _r	551.00	-0.56		
New Orders-Durable Goods Less Capital Goods (Constant \$)	0.50	55.86	56.11	56.73 _r	54.73	-0.61		
Nondefense Capital Goods Less Aircraft & Parts (Constant \$)	0.25	35.18	38.10	39.64 _r	37.98	-0.22		
Raw Industrial Spot Prices (%)	1.05	77.61	26.87	21.77	16.39	-0.61	18.75	0.27
Manuf. Wages Salaries/Total (%)	0.93	-1.49	3.06 _r	3.86 _r	2.50	-2.02		
New Orders to Inventories - Heavy Industries***	0.25	34.16	9.97	5.73 _r	2.49	-2.12		
Purchasing Managers Index (ISM) ***	0.25	58.53	60.23	61.13	61.00	-0.02	58.37	-0.47
Total Weight	4.63							
*LABOR (INDEX 1967=100)	69.80	79.16_r	79.86_r	79.06				
Total Civilian Employment (Household Data) (%)**	0.41	-1.39	0.61	0.77	0.56	-0.34	0.26	-0.49
Service Workers (Establishment Data) (%)**	0.41	-0.71	0.89 _r	0.95 _r	0.94	-0.04	0.75	-0.55
Employment Diffusion Index ***	0.44	57.00	63.30 _r	65.23 _r	67.17	0.29	61.43	-0.86
Initial Claims (000's) *series inverted	0.63	459.00	389.30	387.00	432.25	-0.78	425.50	-0.59
Nonfarm Proprietors' Income (%), A	0.30	2.34	4.67 _r	4.67 _r	4.50	-0.07		
Total Weight	2.19							
*CONSUMER ATTITUDE (INDEX 1967=100)	97.64	99.89_r	97.93_r	95.88				
Consumer Confidence 1,3	0.40	62.70	63.80	66.00 _r	68.00	0.19		
Consumer Sentiment Index *** 2,3	0.40	73.13	73.07	71.60	70.53	-0.26		
Retail Sales Less Auto and Gas Station Sales (%)***	0.50	4.11	5.21 _r	4.32 _r	3.28	-1.08		
Total Weight	1.30							

* These groups comprise the Real Composite Forecasting Index

1 = Conference Board
2 = University of Mich. Survey
3 = these series use the most recently released data.

(%) = Yr / Yr Percent Change
** = 2 Month Moving Average
*** = 3 Month Moving Average

p = preliminary
r = revision
e = estimate

A = 6 month moving average
B = Prices for stock averages are based on a geometric moving average for the month.

The largest gains in April were in U.S. and foreign stock prices and financial commercial paper. The weakness was broad.

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