

Overview

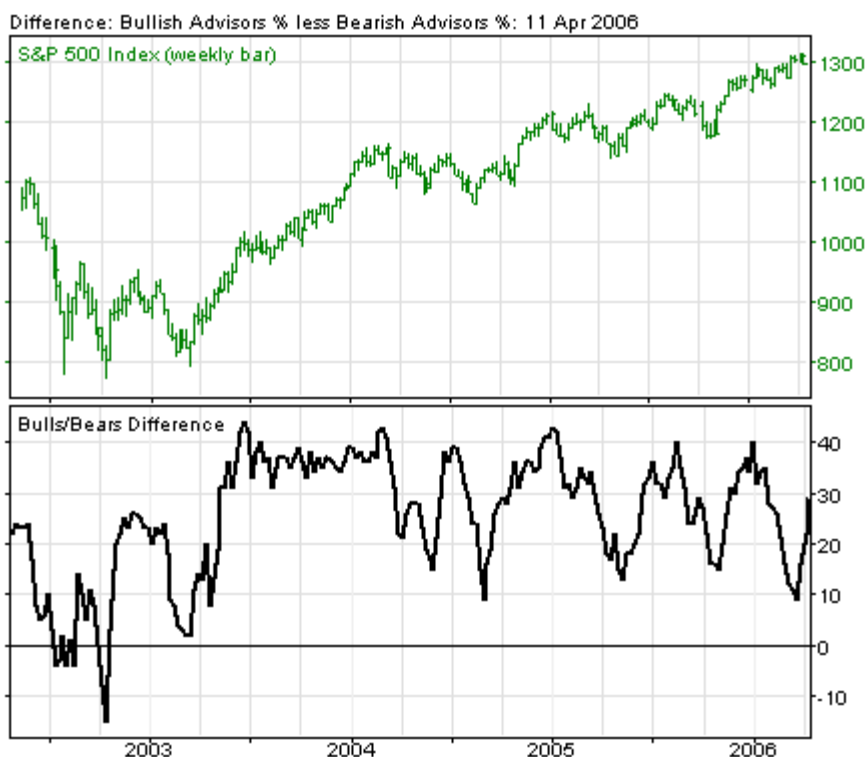
Advisor confidence is gaining and the % of **bulls** jumped to **53.2%**, from the previous 49.5%. Both are well above the 10-Mar reading, at 42.3%. That low level of optimism was positive for equities, but the increase is shifting the sentiment status to neutral and it is heading for negative territory.

The **bears** fell back to **24.5%**, from 27.8% last week and 33.0% five weeks ago, when the bulls were at their low. That high was the most bears since they reached 34.8% on April 18, 2003.

Those calling for a **correction** were down slightly, to **22.3%** from 22.7% last week. This group is short term bearish, but view pullbacks as buying opportunities, and long term expect the market to go up. *A complete table of the Advisory Sentiment appears on the final hotline page.*

Historically, bulls are 55%-60% when indexes achieve record highs, and those extreme levels of bullishness are negative. High levels of bearishness are usually positive because they most often occur after a major market decline, and reflect that there is plenty of cash on the sidelines. During the range bound market over the last few years, short term opportunities have been indicated after the *spread* between the bulls and bears contracted to 15% or lower, and then expanded. A wide difference around 40% has proved negative.

The *difference between the bulls and bears* expanded further, now at 28.7% from 21.7% last week. Those are up sharply from the 10-Mar spread, which was a very positive low level at 9.3%. Similar buy signals were presented in April 2005, [13.1% difference] and October 2005 [15%], and prior to that in August 2004 [9.4%].

**Bullish Themes**

“U.S equity indexes finished the first quarter of 2006 in strong fashion, posting broad gains for the month of March. With the markets in rally mode, investors gravitated toward momentum stocks. This effect was seen in the strong performance of price gain factors, earnings momentum and estimate changing indicators. Conversely, high quality, large cap, and value socks were relatively weak during March.

Ford Equity Research, 11722 Sorrento Valley Rd, Suite 1, San Diego, CA 92121

“As we enter the first full calendar month of the spring season, the *Marketimer* stock market timing model remains in positive territory. This suggests that the primary trend of the cyclical bull market that commenced following our March 11, 2003 buy signal (S&P 500 close 800.73) remain intact. We would view any pullback as normal and healthy occurrence within the context of an ongoing cyclical bull market.”

Bob Brinker's Marketimer, 858 Happy Canyon Rd, Suite 255, Castle Rock, CO 80108-3908

Bearish Themes

“Although the market has continued to remain on a slight up trend, a major sell signal occurred on Friday [7-Apr]. This is a *Hindenburg Omen* sell signal, which occurs when daily new highs and daily new lows on the NYSE both equal or exceed 2.8% of all advancing plus declining issues. The signal is not valid unless two confirmations occur at the same time the signal is given. First, new highs cannot exceed new lows by a ratio of over two to one, and second, the ten week moving average on the NYSE must be rising on the date of the first signal. An additional requirement is that the signal is only activated when the McClellan Oscillator is negative during the 30 trading days following the initial signal. All of those criteria were met on Friday.”

Sudbury Bull and Bear Report, 6735 14th St South, St Petersburg, FL 33705

“Stocks seemed reluctant to go down in March. In one sense, that’s good news – it suggests that any “correction” may be shallower than normal for a midterm election year. But we’re not out of the woods yet. Many indicators (such as the heavy volume of insider selling) are still counseling caution. If corporate America’s officers and directors want out, it can’t be because their stocks are too cheap. Focus your new money on special situations. Treasury bonds will also help you preserve capital – and grow it – until the yellow light turns green.”

Profitable Investing, 9420 Key West Ave, 4th Fl, Rockville, MD 20850-3334

Newsletter Extracts

A Prop for the Markets

Universal Economics | *Paul Macrae Montgomery Editor* | 753 Thimble Shoals Blvd, Suite B, Newport News, VA 23606 | Ph: 757-597-9528

“The most bullish thing this market has had going for it has been the persistent shrinkage in the floating supply of stock, the result of cash takeovers and share buy-backs. Other things being equal, this activity has an exponentially bullish effect on share prices, as described in *King’s Law*. There are, however, some associated problems, such as the fact that long term, the large majority of M&A deals do not add value. And most buy-backs are made without considering whether such a use of cash meets one’s internal investment hurdle rate standards. Also, to a certain extent the captains of industry buy companies for the same reason normal people buy junk on *Ebay* - because it’s exciting. And these periods of peak excitement tend to correlate with tops in the stock market. The problem is how to recognize such a top when it is occurring. *Trim Tabs* reports that the companies in the S&P 500 currently have a record \$640 Billion in Cash, or roughly 7.2% of their total market cap. So they certainly have the wherewithal to continue today’s frenzied deal making. On the other hand, *Steve Leuthold* reports that in February, the 13-week moving average of cash takeovers peaked at an all-time high of \$8.4 Billion a week, surpassing the previous record high of \$8.0 Billion a week set in mid 2000. If the February take-over peak holds, the stock market will have lost perhaps its most powerful support.”

(April 10, 2006)

Don’t Forget Dividends

The Turnaround Letter | *George Putnam Editor* | Suite 801, 225 Friend St, Boston MA 02114 | Ph: 617-573-9550

“Many investors focus solely on the appreciation potential of stocks and forget about the contribution that dividends can make. We like to remind people from time to time how valuable dividends can be. Since it’s been two years since we last focused on dividends, we thought it was time to do it again.

Dividends help you in at least two ways. First, they enhance your return on a stock. At a time when many financial experts are looking for long-term equity returns to be around seven or eight percent, it’s an attractive proposition to capture upwards of half of that return via dividends without worrying about the vagaries of the market moves.

Secondly, dividends give you downside protection in times of market weakness. Investors may forget about dividends in bull markets, but they rediscover the value of a good yield when the bears take over.

Congress further enhanced the value of dividends in 2003 when it reduced the tax rate on dividends from as high as 35% to 15%. There is a risk that this preferential rate could expire in 2008, but that is still two years away. (And if we had to bet on it, we'd put our money on the lower tax rate being extended.)

In our search for attractive dividend plays, we started by focusing on yields in excess of four percent. We then looked for a combination of low stock valuation and solid financials. We also tried to capture a measure of growth potential by looking outside industries normally associated with dividend paying stocks, such as utilities and real-estate investment trusts. The stocks listed below represent a diversified group that meet all or most of these criteria.

AT&T (T), formed via the recently completed merger between AT&T and SBC, has ventured into the acquisition arena again with an offer to acquire BellSouth. Eventually, the merger should lead to significant benefits across both wireless and wireline product offerings. The stock is off its lows of three years ago, but it has yet to emerge on a sustained uptrend. That day will come, and the attractive dividend pays you to wait.

Citigroup (C), through its widely diversified global businesses, provides a one-stop way to gain exposure to the global financial services sector. By historical standards the stock is cheap, and the generous dividend and looks quite secure.

Kimball International (KBAL) is primarily a manufacturer of furniture and cabinets. The company has been sharpening its focus on its core business and is divesting non-core assets. Even before this restructuring, cash flow was solid, suggesting that the business is quite capable of sustaining the attractive dividend.

Lyondell Chemical's (LYO) 2004 acquisition of Millennium Chemicals vaulted the company into position as North America's third largest independent chemical company. Operations range from basic chemicals and derivatives to gasoline blending components and refining. The stock's recent weakness resulted largely from an adverse legal judgment regarding lead paint. But the decline brought the stock into attractive valuation levels and kicked the dividend yield above 4%, which looks secure despite the recent paint ruling.

Superior Uniform Group (SGC) has since 1920 been a supplier of uniforms and image apparel to a variety of industries. The stock has been somewhat lost in our new-age technology world, but its prospects for dependable gains are pretty decent.

Tupperware (TUP) has great brand recognition in the U.S. and is developing a strong international presence as well. Revenue growth has been elusive, but the company has recently taken steps to get back on track. The stock is selling below 1996 levels, and buttressed by solid financials, it has long-term appeal.

Unilever (UN) NY is a global marketer of foods and home and personal care products, including Hellmann's, Wishbone, SlimFast, Lipton, Birds Eye, Pond's, Vaseline and Calvin Klein fragrances. Recent restructuring efforts may crimp profitability in the short run but should set the stage for renewed growth. The firm's financials are quite solid, and so the dividend is secure.

Verizon Communications (VZ), like AT&T, will be one of the survivors of the telecom wars. Its strong geographical markets in the Northeast plus its substantial investment in new technologies put it in a good position to profit from new products such as Internet services and video. It may be some time before Wall Street gets excited about the stock again, but the dividend gives you a nice return while you wait."

(April 2006)

Advisors Sentiment Table

Date	DJIA	S&P 500	Bullish Advisors %	Bearish Advisors %	Correction Advisors %
Tue Apr 11, 2006	11,141.33	1,296.62	53.20	24.50	22.30
Tue Apr 4, 2006	11,203.85	1,305.93	49.50	27.80	22.70
Tue Mar 28, 2006	11,154.54	1,293.23	46.70	28.30	25.00

Tue Mar 21, 2006	11,235.47	1,297.23	46.30	30.50	23.20
Tue Mar 14, 2006	11,151.34	1,297.48	42.30	33.00	24.70
Tue Mar 7, 2006	10,980.69	1,275.88	42.70	31.30	26.00
Tue Feb 28, 2006	10,993.41	1,280.66	42.60	30.80	26.60
Tue Feb 21, 2006	11,069.06	1,283.04	45.30	29.50	25.20
Tue Feb 14, 2006	11,028.39	1,275.53	48.90	27.70	23.40
Tue Feb 7, 2006	10,749.76	1,254.78	51.60	25.30	23.10
Tue Jan 31, 2006	10,864.86	1,280.08	52.60	25.80	21.60
Tue Jan 24, 2006	10,712.22	1,266.86	53.70	25.30	21.00
Tue Jan 17, 2006	10,896.32	1,282.93	57.30	22.90	19.80
Tue Jan 10, 2006	11,011.58	1,289.69	56.80	22.10	21.10
Tue Jan 3, 2006	10,847.41	1,268.80	55.70	23.70	20.60
Tue Dec 27, 2005	10,777.77	1,256.54	60.40	20.80	18.80
Tue Dec 20, 2005	10,805.55	1,259.62	55.00	21.00	24.00
Tue Dec 13, 2005	10,823.72	1,267.43	58.80	21.60	19.60
Tue Dec 6, 2005	10,856.86	1,263.70	56.20	21.90	21.90
Tue Nov 29, 2005	10,888.16	1,257.48	55.80	21.10	23.10
Tue Nov 22, 2005	10,871.43	1,261.23	53.60	23.20	23.20
Tue Nov 15, 2005	10,686.44	1,229.01	53.10	22.90	24.00
Tue Nov 8, 2005	10,539.72	1,218.59	50.60	24.70	24.70
Tue Nov 1, 2005	10,406.77	1,202.76	46.40	26.80	26.80
Tue Oct 25, 2005	10,377.87	1,196.54	44.80	29.20	26.00
Tue Oct 18, 2005	10,285.26	1,178.14	45.30	29.50	25.20
Tue Oct 11, 2005	10,253.17	1,184.87	45.80	29.20	25.00
Tue Oct 4, 2005	10,441.11	1,214.47	49.50	27.80	22.70
Tue Sep 27, 2005	10,456.21	1,215.66	53.20	26.60	20.20
Tue Sep 20, 2005	10,481.52	1,221.34	54.30	25.50	20.20

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