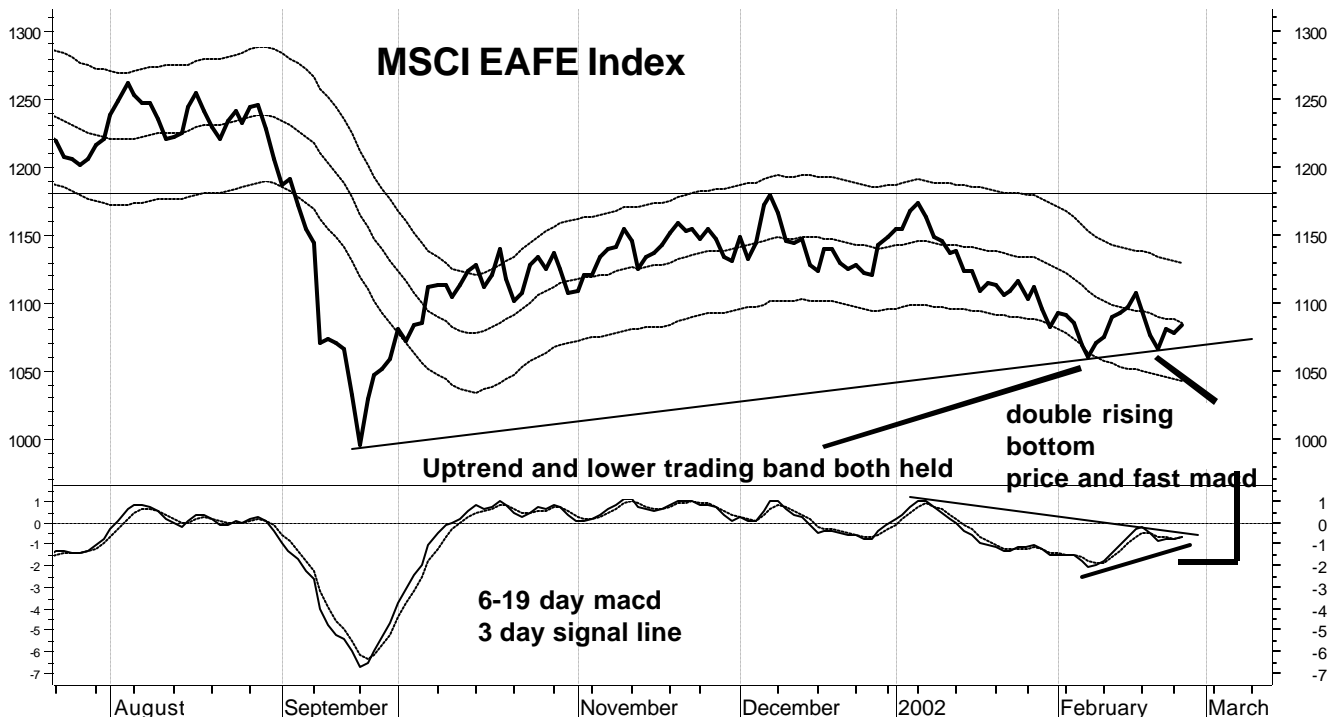


SECTOR WATCH: INTERNATIONALS AND REIT'S SHOW PROMISE



International markets have not, in general, been viable alternatives to the U.S. market during the bear period. However, the chart above shows that the broad-based Morgan-Stanley Europe, Australasia, Far East (EAFE) index has developed some patterns more favorable than what we see in the S&P 500. Like the S&P 500, the EAFE has held support at the lower trading band and has formed a rising double bottom in its fast macd. Moreover, the price chart of the EAFE has formed a rising double bottom, as has its slow macd (not shown above). Neither of these last two favorable chart patterns has developed in the S&P 500. This may indicate a shift in relative strength towards foreign markets.

During January we expressed caution regarding REIT's. Since then, the index did drift for two weeks or so. During the past three weeks, however, a new upleg has ensued that could result in a major breakout. The AMEX REIT Index has stayed within a rising trend channel and broken above its one-month downtrend. If it rises further, it would make a new all time high. (See chart below.) REIT's are attractive long term portfolio holdings for diversification because they have traditionally been poorly correlated with the rest of the stock market. Their five month uptrend remains intact.

