

StockDiagnostics.com Founder says that Cash Flow is indicating that the stock market is headed to new highs.

Interest rates are also expected to be higher as cash flow growth for industrials and technology companies is accelerating.

The aggregated cash flow (CFFO) metrics, which StockDiagnostics.com monitors indicate that the NASDAQ 100 index is poised to lead the market up in 2008 according to its founder, Michael Markowski. The index is comprised of the 100 biggest companies that trade on NASDAQ including EBAY, Google, Microsoft, Dell and Apple Computer, etc. Markowski is doubtful that the NASDAQ 100, which was recently at 2103.01 will get back to its year 2000 bubble high of 4816.35 in 2008. However, he believes that its resurgence and the momentum will propel the Dow Jones Industrials index to regular new highs during at least the first half of 2008. He also predicts that the NASDAQ 100 will out perform the Dow by at least 25% in 2008.

Why is Markowski so bullish on the NASDAQ 100? His readings indicate that the NASDAQ 100's aggregate growth rates for its two key cash flow metrics, CFFO, the acronym for Cash Flow From Operations which can be found on a company's Cash Flow Statement which it files with the SEC quarterly and Free Cash Flow (CFFO minus Capital Expenditures) have been accelerating for the last four consecutive quarters after decelerating for the prior five consecutive quarters. Markowski says that between April of 2005 and July of 2006 both annualized CFFO and Free Cash Flow showed five consecutive quarters of declining growth rates. The two metrics reached their maximum rates of decline, -7.85% for CFFO and -13.55% for Free Cash Flow in the 12 months ended July of 2006. Since then both of the metrics have been accelerating. For the 12 months ended July 31, 2007, CFFO grew at 23.3% and Free Cash Flow grew at 25.5%.

What makes Markowski even more bullish on the NASDAQ 100 is that annualized CFFO (cash flow from operations) in each of the last four quarters has actually been growing faster than earnings. Markowski found that it is rare occurrence for any of the three major indices, the NASDAQ 100, the S&P 500 and the Dow Jones Industrials to have their aggregated annualized cash flow from operations increasing at a faster rate of growth than earnings for periods of time which include at least two consecutive quarters. In his historical research on the three major indices he found that there were only eight periods (period defined by having at least two consecutive quarters of annualized cash flow growth) when cash flow grew faster than earnings. Since 1997 it happened four times for the NASDAQ 100, twice for the S&P 500 and twice for the Dow Jones Industrial Average.

Markowski found that for each of these eight occasions or periods where cash flow grew faster than earnings for any of the three major indices, they were followed by periods (consisting of consecutive quarters) in which earnings growth not only overtook CFFO growth but also accelerated significantly. For example, after the dot com bubble burst in 2000, annualized cash flow growth for the NASDAQ 100 overtook earnings growth for five consecutive quarters from January of 2001 through April of 2002. By the time that

annualized earnings growth was able to surpass cash flow growth in the quarter beginning August of 2002 the aggregated annualized earnings for the NASDAQ for the subsequent five consecutive quarters accelerated to 92.49%, 101.50%, 103.51%, 143.40% and 584.19% respectively for the ensuing quarters. Markowski says that according to his findings prior quarters of cash flow growing at a faster rate than earnings are reliable predictor of accelerating earnings growth. Thus, according to Markowski consecutive quarters of cash flow growing at a faster rate of earnings made it safe to buy equities in the Summer of 2002, just before a new bull market began in October of 2002. The table below is a good illustration on why periods in which cash flow is growing at greater than earnings can be good predictors of accelerating future earnings growth. Every single period of cash flow acceleration (growing faster than earnings) was followed by significant earnings acceleration (far right column).

Major Indices (<i>data excludes financial companies</i>)	Period (consecutive quarters in which CF% growth > ER% growth)	Peak ER% for period in which CF growth > ER growth	Subsequent period in which ER > CF growth	Peak ER% for subsequent period in which ER > CF growth
NASDAQ 100	08/06 – 07/07	+ 22.05%	?	?????
DJ Industrials	05/01 – 01/03	+ 7.11%	02/03 – 10/04	+31.85%
S&P 500	02/01 – 01/03	- 4.91%	02/03 – 01/05	+461.79%
NASDAQ 100	02/01 – 04/02	-91.59%	05/02 – 07/03	+584.19%
NASDAQ 100	05/99 – 01/00	+34.59%	02/00 – 10/00	+ 58.62%
DJ Industrials	02/99 – 10/99	+31.75%	11/99 – 07/00	+ 39.99%
S&P 500	02/99 – 01/00	+21.54%	02/00 – 01/01	+ 43.11%
NASDAQ 100	05/96 – 04/97	+64.95%	05/97 – 04/98	+ 98.47%

Given Markowski's findings that the Cash Flow metrics are accelerating and that earnings for the NASDAQ will soon be accelerating here is his predictions for the stock market and the economy.

- Dow Jones Industrials will close 2007 at or near their all time highs.
- The NASDAQ 100 will continue to be the best performing of the three major indices including the Dow Jones Industrials and the S&P 500 for the foreseeable future.
- The performance of the S&P 500 will lag the performance of the NASDAQ 100 and the Dow Industrials because 20% of the index includes financial companies and its cash flow metrics are not accelerating as fast as the Dow Industrials and the NASDAQ 100.

- The US will not go into recession. The rapidly accelerating CFFO and Free Cash Flow of the NASDAQ 100 indicates that a significant boom for technology and smaller companies has been underway for at least 12 months. Also, the most recent Dow Industrials' Free Cash (18.24%) and CFFO (10.75%) growth rates for the most recent 12 months was the highest since October of 2004 and January of 2005 respectively.
- Interest rates will not go down for an extended period of time. They are more likely to go up by the middle of 2008 or even sooner. Markowski believes that the Federal Reserve could raise rates in the first quarter of 2008.
- The US dollar will stabilize and will advance against most of the other currencies as earnings momentum decreases the likelihood of further interest rate cuts.

Markowski has 16 companies in the NASDAQ 100 that he believes will outperform the NASDAQ 100, the S&P 500 and the Dow Jones 30 Industrials over the next 12 months based on their cash flow metrics. The 16 companies are listed in the table below:

Symbol	Company	price	5y low	5y hi	Mkt cap	CFFO % chg	Rev % chg
AAPL	APPLE INC	157.9201	6.36	159.18	137.3B	151.90	24.62
ADBE	ADOBE SYS	43.98	8.855	44.92	25.2B	38.04	17.09
AMAT	APPLIED MATERIALS	20.81	10.26	25.94	28.6B	48.60	18.16
CSCO	CISCO SYS	32.4501	8.12	33.38	197.9B	27.91	22.60
CTXS	CITRIX SYS	40.3501	5.57	45.5	7.2B	28.71	20.39
EBAY	EBAY INC	39.33	12.556	59.21	53.4B	11.78	29.33
INTU	INTUIT	31.14	16.65	35.98	10.5B	19.23	15.80
JOYG	JOY GLOBAL	51.36	3.4	72.23	5.5B	48.95	9.65
KLAC	KLA-TENCOR	55.2001	25.16	62.82	10.6B	93.76	31.90
MSFT	MICROSOFT	29.4525	21.4599	31.84	276.9B	23.55	15.45
NVDA	NVIDIA	35.8201	2.4	37.95	19.6B	207.08	34.51
ORCL	ORACLE	21.5675	7.65	22.17	110.4B	40.20	24.53
PAYX	PAYCHEX	40.81	22.5	47.14	15.2B	12.68	11.07
PCAR	PACCAR	85.7	13.64	98.63	21.3B	35.24	6.18
QCOM	QUALCOMM	42.27	13.66	53.01	70.7B	14.60	20.86
SPLS	STAPLES	22.12	7.78	28.00	15.7B	18.13	12.46

Apple (NASDAQ:AAPL), Adobe Systems (NASDAQ:ADBE), Applied Materials (NASDAQ:AMAT), Several of the companies have already other well recogmarket As for my Winners I found 16 of them, which have outstanding CFFO metrics among the members of the NASDAQ 100. I found no Sinners as most of the members of the index generate positive cash flow.

For additional details on the above companies, visit www.stocldiagnostics.com