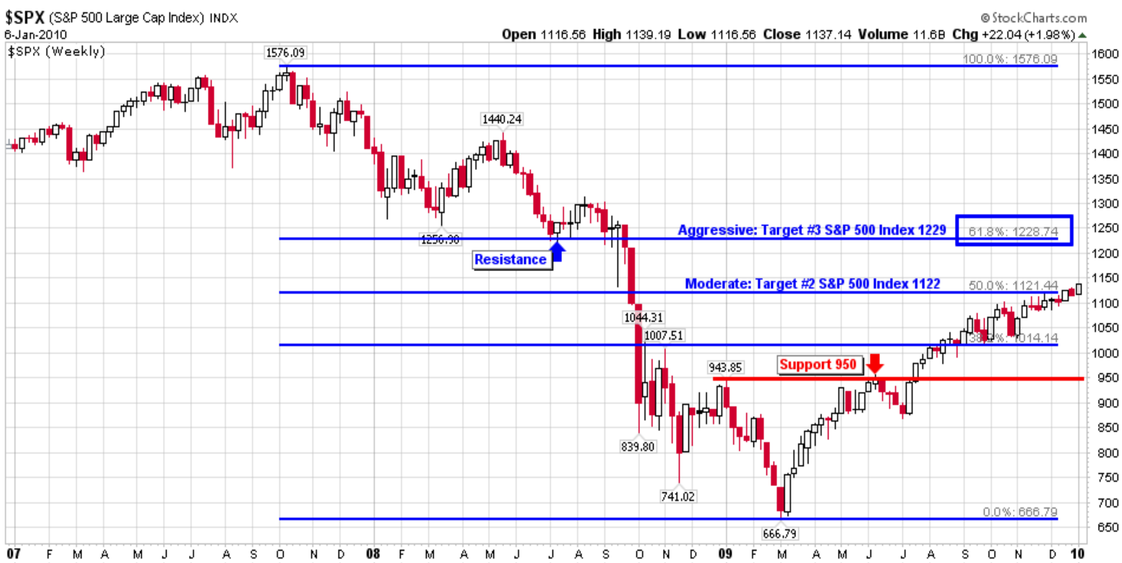
CAPITAL MANAGEMENT GROUP, INC.

Alternative Investment Strategies

2010 Outlook - From a Technical Perspective

What follows is a quick snap shot of my current thinking from a technical perspective. For the year, I believe the stock market will be range bound with an aggressive upside target of 1229 and a downside target of 950. In December 2008 (when the world was broken), I listed three bounce recovery targets that ranged from Conservative (S&P 500 Index Target #1 at 1062), Moderate (Target #2 at 1160) and Aggressive (Target #3 at 1259). This was based on the November 2008 low of 741 (the crash low at that time). I adjusted my bounce recovery targets to Conservative (S&P 500 Index Target #1 at 1000), Moderate (Target #2 at 1122) and Aggressive (Target #3 at 1229) to reflect the low of 666 in February 2009. Pretty close either way. While I expected 2009 to be a very strong year for the buy-and-hold investor, I don't feel same this year. My best guess is that we hit the Aggressive 1229 target in the first few months of the year. This will be followed by a correction towards 950 and some a end of year recovery bounce. All in, somewhat range bound. A better trading environment with increased volatility. Inflation will come back in picture, valuations are high, big economic problems will continue, tied to a leverage unwind (system wide), and I think higher taxes will kick us back into a recession in 2011.

The following chart reflects the bounce recover targets: A challenge of the 1229 level is probable and ties together two important technical levels. The market breakdown at 1230 (see Resistance arrow) represents a major market breakdown just prior to the crash, as well as the 61.8% retracement of the 1576 to 666 decline (see blue rectangle box).



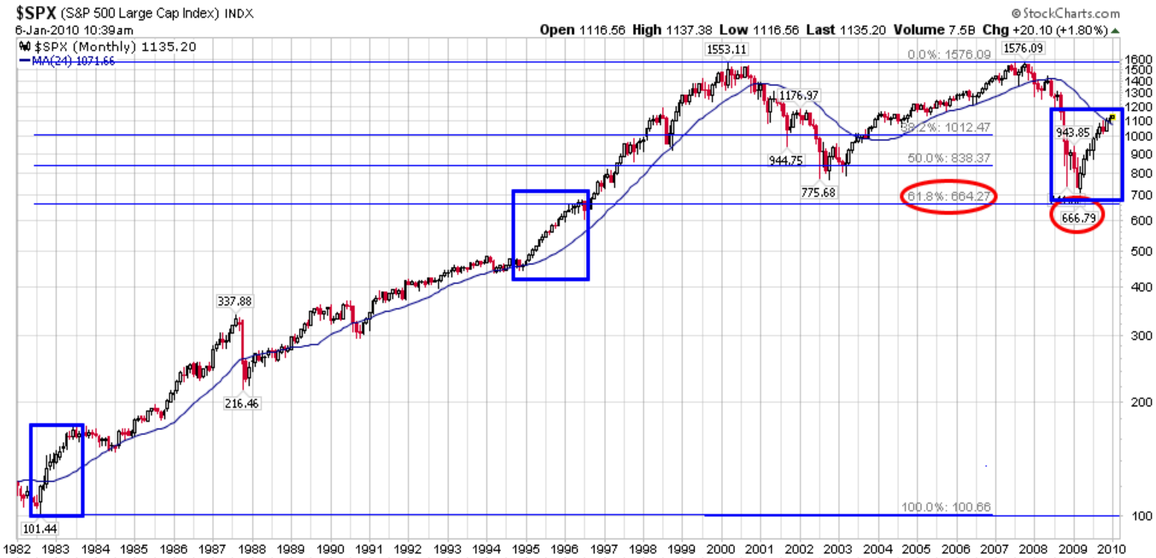
Here is the risk/reward as I see it today: My aggressive upside target is approximately 9% higher from here. The downside target is -29% (see red support line above at 950). I believe we'll see 950 tested sometime this year. I do believe we hit the upside target first but risk remains high and there are certainly no guarantees that the Aggressive Target #3 is reached. The key question is how much risk one is willing to take from this point in time moving forward.

I've previously noted that crash recovery bounces are explosive and are a supply/demand phenomena (on average 50-60% in 7.5 months). That has now occurred (the S&P is up nearly 70% from the 666 low and we are more than 7.5 months from the Feb. low). Sideline cash has declined to levels last seen at the market high in 2007. Money has moved back into the game and with sellers long since sidelined, the rally has been explosive. That is normal post-crash behavior. Technically, markets tend to retrace 38.2%, 50% or 61.8% of a prior move, up or down.

My moderate target was set at 1122 when everyone thought the world was broken (and it was broken – see my newsletter "December 23, 2008: You Will Get The Chance"). While nearly all of my personal investments are in our various alternative investment programs, I do have a personal 401k that I trade tactically. As most investors typically have some traditional portfolio (buy-and-hold) exposure allocated to the stock market, it is with this thinking that I share my 401k investment game plan. I recently moved my 401k to cash and I will sit patiently and look to re-enter the equity markets when everyone else is selling (it will happen again – just not sure when that will be – my guess is sometime in the fall). Of course, I'll reassess as the year moves forward. I've had a great run since I positioned my 401k aggressively during the crash. It was substantial and I'm content. I believe that I'll get an opportunity to re-enter the market at lower levels. My exit was tied to the 50% retracement level, the 7.5 months post-crash low, and investor optimism. My re-entry trigger will be tied to excessive investor pessimism (fear) and probable support levels. "Buy when everyone else is selling" and then "Sell when everyone else is buying". I believe this is a good survival plan for long-term secular bear markets. Ultimately when valuations reach attractive levels, I'll switch back to a long-term secular bull market approach for my 401k. For now, I don't believe that buy-and-hold will work. My advice is to trade the equity portion of your portfolio more tactically; tied to investor sentiment extremes and logical support and resistance levels. Invest in tax free bonds of shorter duration and have exposure to alternative trading strategies. (From time to time I'll send out the Investor Sentiment charts that I follow).

Our world, and certainly the US, is moving through a massive debt bubble unwind. This simply takes time. To expect the violent straight up market move to continue would be counter to historical behavior patterns. In summary, for 2010 I see a range bound market between 1229 and 950. Risk could prove to be greater than expected.

Below is a long-term monthly S&P 500 Index chart from 1982 to present. Several things to note: First, the decline from the October 2007 high of 1576 retraced almost exactly 61.8% of the previous bull market run to a low of 666. Also, I've noted three periods of relatively unusual straight up and appreciable market movements (blue highlighted boxes). Two of those periods occurred in the secular bull market period of 1982 to 2000. These periods generally prove to be more difficult for active trading strategies and tend not to last. I believe we'll see volatility pick up in 2010 and return to a more favorable trading environment. I'm excited for the year ahead.



Wishing you and your family a very Happy New Year.

With kind regards,
Steve

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