

CAPITAL MANAGEMENT GROUP, INC.

Alternative Investment Strategies

April 23, 2010 Market Update: Optimistic Extreme - Time to sell/get defensive

Aggressive exit Target in sight – A difficult six months ahead. Risk is high – I believe it is time to sell and/or get defensive.

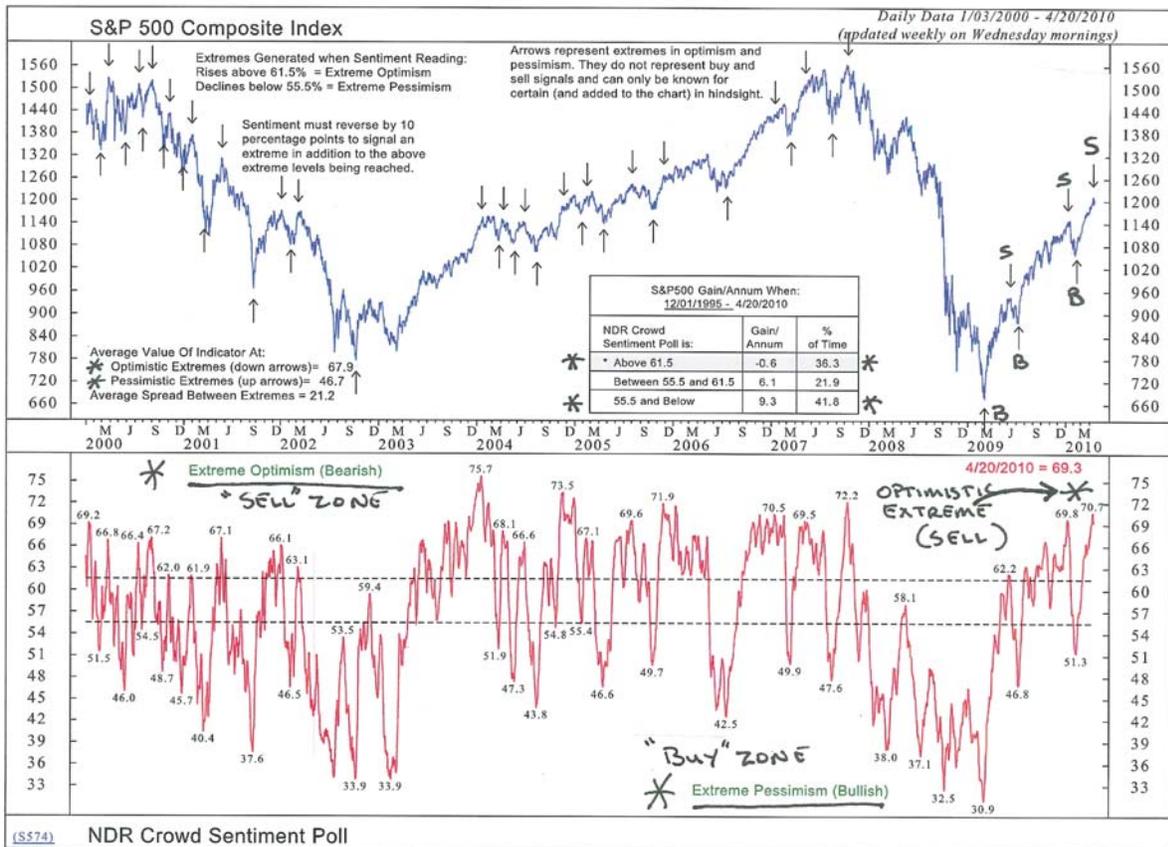
“Sell when everyone else is buying, and buy when everyone else is selling...” Sir John Templeton. So difficult to do as we humans feel good at tops and feel fear/panic at the bottoms. Who wanted to buy in November 2008 and February 2009? And who wants to sell today?

Optimism is back and investors are aloof, just at the wrong time (once again). Months ago I painted a picture of the likely post crash rebound and I set a moderate recovery target at 1122 and an aggressive recovery target 1229. Today the S&P 500 Index is at 1210. There is significant resistance between 1229 and 1250.

Following is the most recent NDR Crowd Sentiment Poll chart: Note the Extreme Optimism level today (bottom section of the chart, upper right corner 4/20/10 = 69.3. It was 70.7 last week). Also note the up and down arrows on the top half of the chart. Optimistic Extremes (the down arrows) occur when the Sentiment Poll reading is 67.9 or higher (sell when everyone else is buying). Pessimistic Extremes (the up arrows) occur when the Sentiment Poll reading is 46.7 or lower (buy when everyone else is selling). The chart can help you understand how the market has behaved post extreme readings dating back to January 2000. The evidence is pretty clear, if you have long equity exposure in your portfolio, it is time to get defensive.

NDR Crowd Sentiment Poll chart:

NDR CROWD SENTIMENT POLL 4-21-2010



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Combining the “Extreme Optimism (Bearish)” reading from the above chart with the overhead resistance at 1229 immediately ahead (reflected in the chart below), and given the very difficult fundamental backdrop – risk of loss is very high.

S&P 500 Index chart:



In December of 2008, I wrote, [“Be patient, you’ll get that chance...”](#). I believe investors got that chance and it is time to sell and/or put other defensive measures in place (covered calls, puts, etc). I believe that the equity markets remain in the grips of a long-term secular bear market (17 years or so which started in March 2000). All secular bear markets have shorter-term bull market moves. This one has been one of history’s best. Be happy and be smart. Sell at logical resistance levels tied to Extreme Optimism. I don’t believe the potential for a few more percentage points is worth the 35% risk to the downside. And remember, you can always re-buy back in at logical support levels tied to Extreme Pessimism (“buy when everyone else is selling”). I’m targeting the 950-1000 level in the S&P as logical support. Be patient... secular bear markets offer a number of trading opportunities.

I believe that most investor’s portfolios should include a diversified blend of Absolute Return Strategies. I expect volatility to increase and a better environment for short-term and mean reverting trading strategies.

Please contact your CMG Investment Advisor Representative if you have any questions.

With kind regards,
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