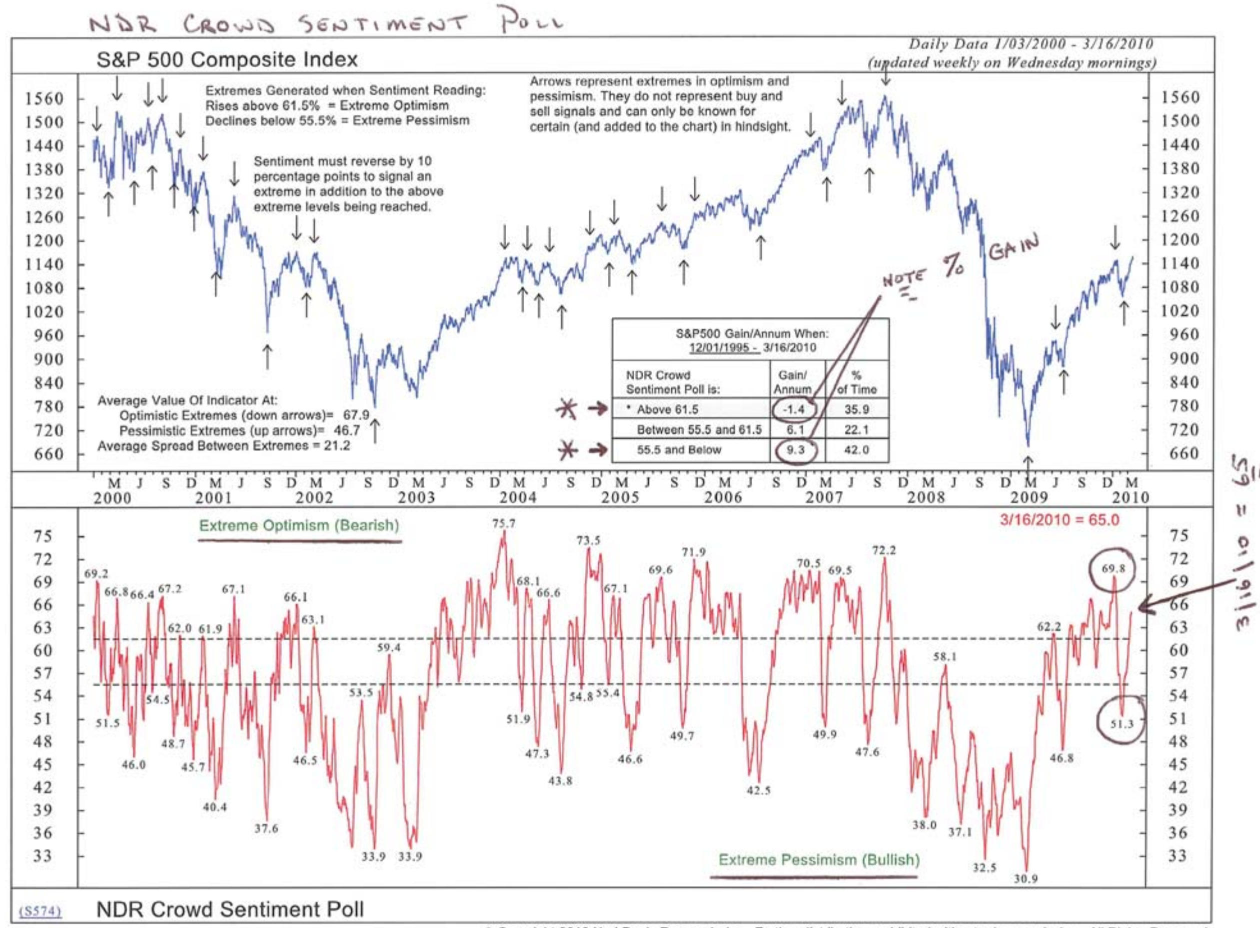
CAPITAL MANAGEMENT GROUP, INC.

Alternative Investment Strategies

March 19, 2010 Market Update: Sell The Rallies

Following is an update on my [December 7, 2009 Update: My Two Cents - Time to Sell the Rallies]() market commentary piece. I remain in belief that we are in a long-term secular bear that may likely last for another seven or so more years as we work our way through the consequences of deleveraging both domestically and worldwide. A difficult environment for buy-and-hold. An attractive environment for tactical trading. In December (link above), with the S&P 500 Index at 1120 (a target presented as an exit for moderate risk investors) I presented a possible game plan. Simply, sell when everyone else is buying and then look to buy back in when everyone else is selling. Sentiment is measurable and the logic is sound. I've included one of my favorite charts for measuring investor bullishness and bearishness, the NDR Crowd Sentiment Poll chart below. Note the return stream when the NDR Crow Sentiment Poll is above 61.5 and the return stream when below 55.5. In February sentiment bottomed in the Extreme Pessimism (Bullish) zone at 51.3 and the market rallied from a low of 1040 to 1160. Today, the fear has again subsided, investors are comfortably resting, and yet large structural problems remain. Sentiment is back in the Extreme Optimism (Bearish) zone and thus the timing of today's update as I believe it is again time to revisit Sir John Templeton's sage advice, "Sell when everyone else is buying".



Potential for a 1229 short-term bull cycle top and projections for a severe market correction between April/May to October. Chart and target's follow:

Today the market is at 1150 and continues to have the potential to reach 1229 (presented as Aggressive Target #3 in my previous email and represents a 61.8% retracement of the crash decline). The short-term cyclical bull move is aged and risk remains high. My work puts fair value in the S&P at approximately 900. The market is overvalued on a fundamental basis by nearly 27%. From a risk/reward perspective I see 80 points of upside (+7%) and 250 points of downside risk (-22%). Thus my "Sell the Rallies" theme tied to Extreme Optimism. We are in that zone again today.

Personally, while the majority of my investments are in our various absolute return strategies, 100% of my 401k was moved to money market funds in December when the S&P was at 1120. I was very aggressively allocated and bought when the market was crashing tied to Extreme Investor Pessimism and sold when the market reached my moderate risk target tied to Extreme Optimism. I stuck to my 401k investment plan and it was a great run. I believe I'll get another chance to rebuy below 950 sometime this year. Valuations, interest rates, and investor sentiment will continue to drive my entry and exit decisions.

With kind regards,

Steve

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