

# CAPITAL MANAGEMENT GROUP, INC.

Alternative Investment Strategies

## CMG Update: So Bad It's Good October 24, 2008

At the time of this writing, the market is trading sharply lower (today Friday, October 24, 2008). I believe today or Monday could likely prove to be the flush out day. It is forced selling and pure panic. We will be talking about these past few weeks for the rest of our lives.

As you know, we run a platform of alternative trading strategies. We are far from buy-and-hold money managers and, in fact, several of our strategies thrive on volatility as they can trade the markets in both directions (up and down). However, I understand that many of you have exposure to the market with some of your non-CMG managed investments, so I felt compelled to sprinkle a little bit of good news in the midst of this storm.

Last week I sent an email quoting Sir John Templeton. He said, "You want to buy when everyone else is selling and sell when everyone else is buying". I promised to send a few charts to help measure that decision process. They follow below:

Chart 1--Very Oversold: S&P 500 Percentage From 200-Day Moving Average - courtesy of Ned Davis Research (NDR):

There have been six times since 1950 that the S&P 500 dropped below its 200-Day moving average by 22% or more. The arrows on this chart reflect the extreme buying opportunity.

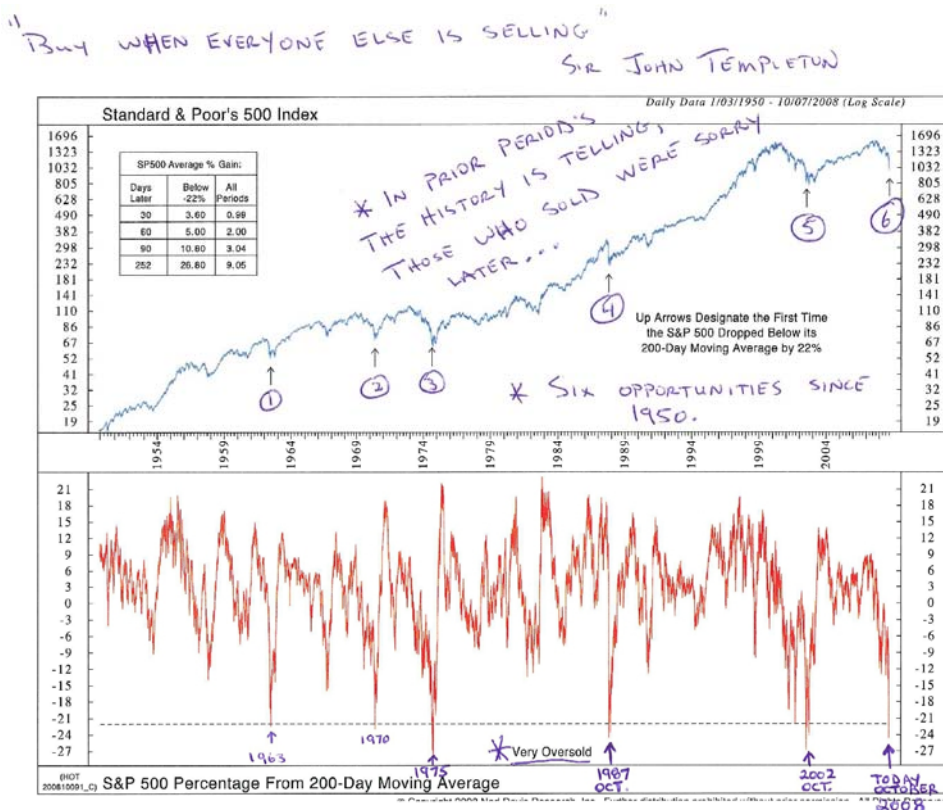


Chart 2--So Bad It's Good – NDR:

The following represents New Highs Minus New Lows divided by Issues Traded. It reflects that only 1.2% of the time since 1960 has this indicator been so extremely negative that, in fact, it is actually very positive. The annual gain per annum when the chart was in the "So Bad It's Good" zone was 231.5%. Again, this has happened only 1.2% of the time since 1960.

So BAD IT'S GOOD

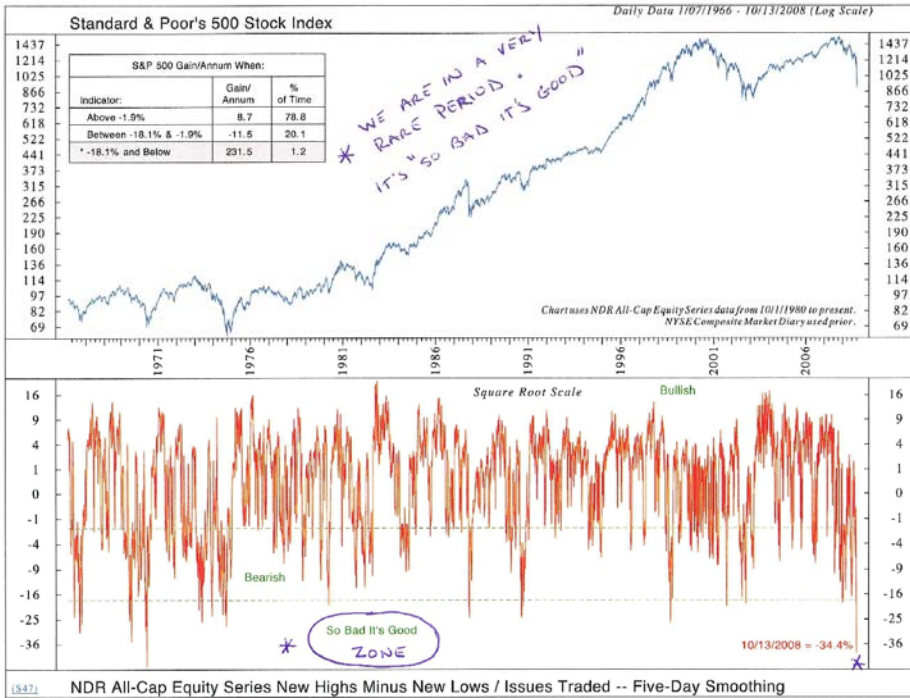


Chart 3--NDR Crowd Investor Sentiment:

The chart reflects Extreme Pessimism. This is a bullish indicator reflecting that the masses are panic selling. Note the 8.2% annual gain when the chart reading is in this zone. Also note the market performance when the market is in the Extreme Optimism zone or -2.5% per annum. Look at the Extreme Pessimism zone as the 'buy when everyone else is selling' zone and look at the Extreme Optimism zone as the 'sell when everyone else is buying' zone.

INVESTOR SENTIMENT - NDR CROWD SENTIMENT POLL

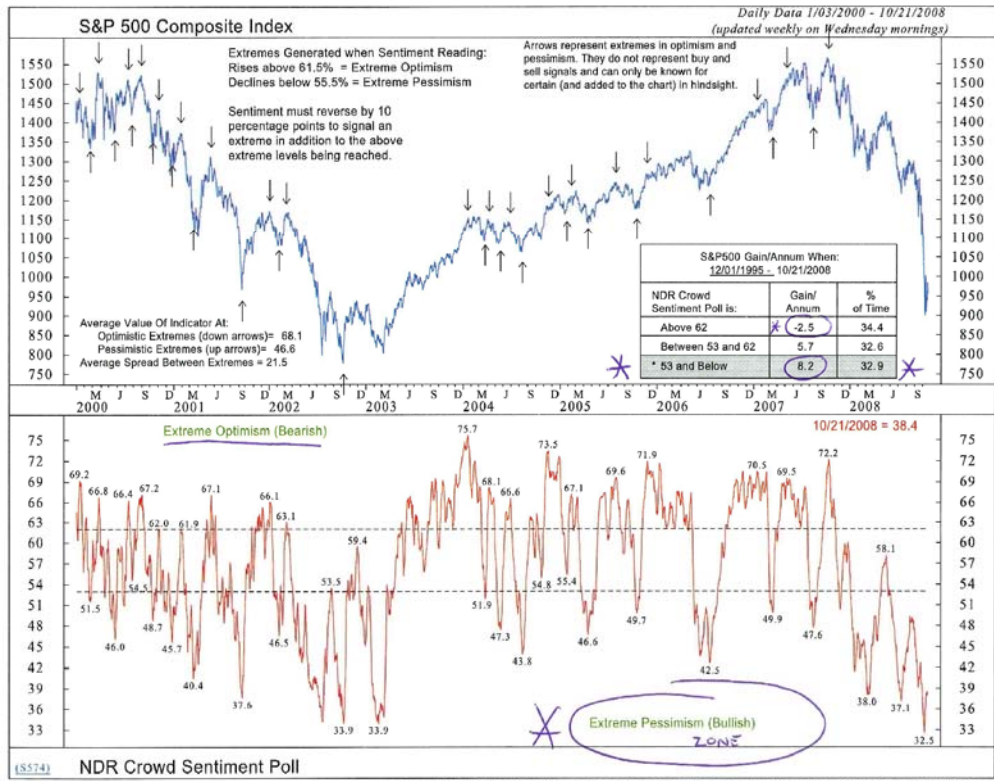
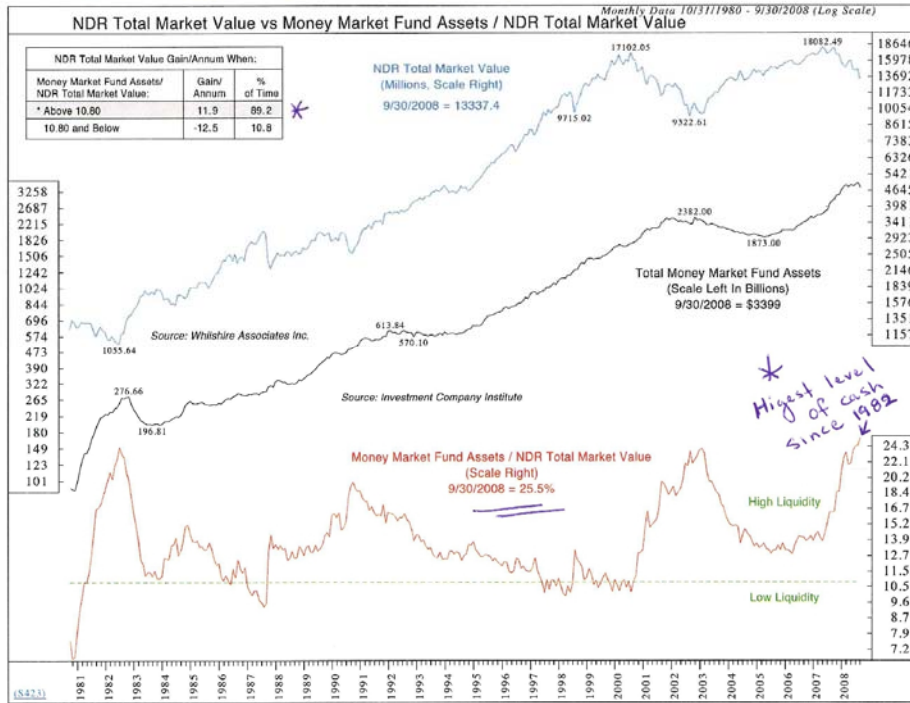


Chart 4--Money Market Fund Assets as a percentage of Total Market Value – NDR:  
 Money Market Funds are at the highest reading since 1982. There is a lot of cash available on the sidelines.

MONEY MARKET FUND ASSETS = 25.5% OF THE NDR  
 TOTAL MARKET VALUE (ALL).



Look – there is plenty of bad news I can point to as we have communicated to you for some time now. Yet it is important to take a step back and look at the situation from a distance.

Art Cashin was on CNBC this morning. He has been consistent in his communication – he has been waiting for an investor panic low. In humor, he put his hand to his chest this morning and said, “we who are about to die, salute you”, quoting what the ancient gladiators said to the crowd before going into the arena to battle. Art then said that he feels that today or Monday will be the low in the market and that “the resulting rally will be jaw dropping”. He may or may not be right on his timing. I do agree that the resulting rally will be outstanding. My message today is simple – don’t panic.

Take a deep breath and know that the markets will move through this disaster, much like in all of the periods reflected in the above charts. If you are stuck in a few positions you are unhappy with, look back and remember what Sir John said, “Buy when everyone else is selling”. I believe you will have a chance to sell at higher levels when the market rebounds. On that rebound, look to reallocate a greater percentage of your portfolio to alternative trading strategies.

We in the midst of perhaps the greatest investment storm in the history of the financial markets. Our diversified alternative trading strategy blends are holding up quite nicely, as we anticipated they would. This is an exciting time here at CMG. We have opened up nearly 200 new accounts in the last several months and have more than 525 new accounts in the transfer process.

My long-term advice remains the same; this is a traders' market for some time to come. Two months ago I sent a report reflecting that the GAAP PE ratio at 24 times earnings and pointed to how expensive the market was at that time. A lot has changed since then; I'll send the updated chart out next week.

Wishing you the very best. As always, please feel free to contact your CMG Investment Representative with any questions you may have.

Steve

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