Wealth through ingenuity.

On My Radar

October 11, 2012
By Steve Blumenthal

As I dive through a broad range of independent research each week, following are several ***bullet points*** I found important: Hussman, Shilling and Dalio.

- **Number Five - John P. Hussman, Ph.D.**
  "Examine the points in history that the Shiller P/E has been above 18, the S&P 500 has been within 2% of a 4-year high, 60% above a 4-year low, and more than 8% above its 52-week average, advisory bulls have exceeded 45%, with bears less than 27%, and the 10-year Treasury yield has been above its level of 20-weeks prior."

  "While there are numerous similar ways to define an "overvalued, overbought, overbullish, rising-yields" syndrome, **there are five small clusters of this one in the post-war record:** November-December **1972**, July-August **1987**, a cluster between late-**1999 and early 2000**, early **2007**, and **today**."

  "The first four instances preceded the four most violent market declines in the post-war record, though each permitted a few percent of additional upside progress before those declines began in earnest. We do not know what will happen in the present instance, particularly over the short-run. But on the basis of this and a broad ensemble of additional evidence, we estimate that the likelihood of deep losses overwhelms the likelihood of durable gains." John Hussman
  **bold emphasis is mine*

  http://www.hussmanfunds.com/wmc/wmc121008.htm

- **On QE Infinity – A. Gary Shilling's INSIGHT**
  "The Fed is going to purchase $40 billion of federal agency mortgage-backed securities per month until unemployment rates return to the Fed's range for normal unemployment rate of 5% to 6.3%. The Fed doesn't see unemployment dropping to that rate until the end of 2014."

  "By then, the Fed would have bought approximately $1,060 billion of those securities issued by Fannie Mae, Freddie Mac and other government-sponsored enterprises, compared with $1.75 trillion it purchased in QE1 and $850 billion in QE2. Since there were $2,258 billion of these agency securities outstanding as of June 30, 2012, the Fed would have bought 46% of them by the end of 2014. The central bank will own them all if it takes another 2.5 years to reach the Fed's unemployment rate target range in mid-2017."

"In this year so far, the Fed has bought in the open market $360 billion of 7 to 30 year Treasury's, the equivalent of **65%** of the $556 billion the government has issued this year."

"The prospect that the Fed will own them all if it sticks to its current plan isn't all that far-fetched. As we've been noting for some months, at the rate that the private sector deleveraging is taking place, it will take another five to seven years to return to norm (2017 to 2019)."

"The open-ended and unprecedented nature of QE3 might suggest that Bernanke has lost control." A. Gary Shilling - **www.agaryshilling.com** - October 2012

- **Ray Dalio on the Global Economy – 11 minute YouTube video interview**
  Ray runs the world's largest hedge fund – Bridgewater Associates LP. On returns, Ray says, "What produces high returns is structurally not there." On QE: "We are not the only country printing. A significant challenge will be in how the developed world comes together to deal with the global unwinding of QEs."

  Click here to watch his global views.
  http://www.youtube.com/watch?v=Pux0ye8egPQ&feature=related

- **Sentiment is improving – you can access sentiment charts in the piece I publish every Wednesday on our website called "Trade Signals" www.cmgwealth.com or here.**

  My thinking is that long-term equity exposure should be hedged at points of Extreme Optimism and removed at points of Extreme Pessimism. The daily sentiment has moved from the Extreme Optimism into the neutral zone. The crowd sentiment poll, data run every Wednesday, remains in the Extreme Optimism zone. **Click here for the charts**.

When I look at the world, I try my best to view it from a probability perspective. I read endlessly and have access to some outstanding hedge fund and independent industry research. Fortunately, if you dig deep enough you too have access to a great deal of information on the internet. This certainly wasn't the way it was in 1984 when I started in the business.

I believe we are in a challenging low return environment and that most individual investors hold higher return expectations; those expectations will not be met and investors will seek a better solution. I see an unprecedented opportunity for you to grow your advisory business.

With this piece I try to share some information that I have found to be important. To me the evidence is clear, but I most certainly could be wrong.

Whether I am correct or incorrect in my thinking, my overriding belief is that you can create and manage successful portfolios for the period ahead. This environment requires more work (mixing a diverse set of risk drivers and more active beta hedging) than exists in a secular bull market cycle, but also offers you the ability to separate yourself from the 98+% of your competition that is heavily weighted in the old 60/40 stock/bond construction model.

The good news is that the investment opportunity set has been greatly expanded and solutions exist. While risk is an inescapable companion in the investment process, I believe it can be quantified and minimized by expanding the asset classes you include in your portfolios.

I hope you find this information helpful.

With warm regards,

Steve

Stephen B. Blumenthal
Founder & CEO
CMG Capital Management Group, Inc.
1000 Continental Drive, Suite 570
King of Prussia, PA 19406
steve@cmgwealth.com
610-989-9090 Phone
610-989-9092 Fax

In the event that there has been a change in a client's investment objectives or financial situation, he/she/it is encouraged to advise CMG immediately. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy (including the investment strategies devised or undertaken by CMG) will be profitable for a client's or prospective client's portfolio. All performance results have been compiled solely by CMG and have not been independently verified. Information pertaining to CMG's advisory operations, services, and fees is set forth in CMG's current disclosure statement, a copy of which is available from CMG upon request.

A copy of CMG's current written disclosure statement discussing our advisory services and fees is available upon request or you can access this information on CMG's website (http://www.cmgwealth.com/main11/adv.asp).

Mutual Funds involve risk including possible loss of principal. An investor should consider the Fund's investment objective, risks, charges, and expenses carefully before investing. This and other information about the CMG Absolute Return Strategy Fund and CMG Tactical Equity Strategy Fund is contained in each Fund's prospectus, which can be obtained by calling 1-866-CMG-9456. Please read the prospectus carefully before investing. The CMG Absolute Return Strategy Fund and CMG Tactical Equity Strategy Fund are distributed by Northern Lights Distributors, LLC, Member FINRA. NOT FDIC INSURED. MAY LOSE VALUE. NO BANK GUARANTEE.