CAPITAL MANAGEMENT GROUP, INC.

Alternative Investment Strategies

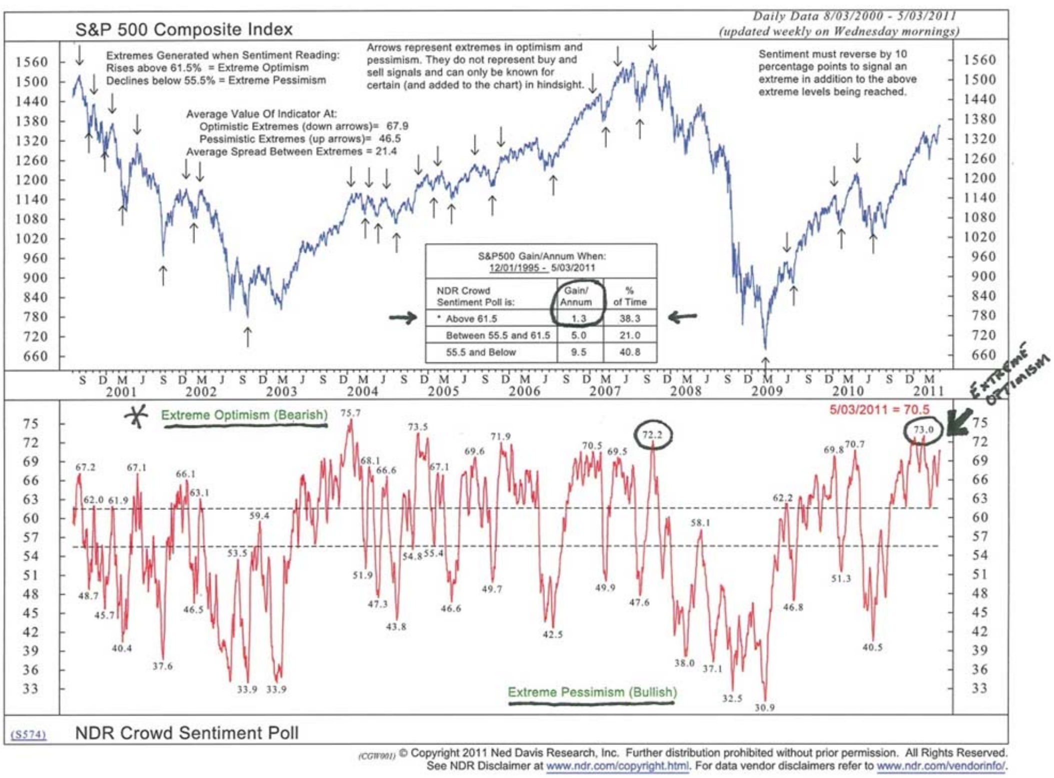
The Blumenthal Viewpoint

June 16, 2011

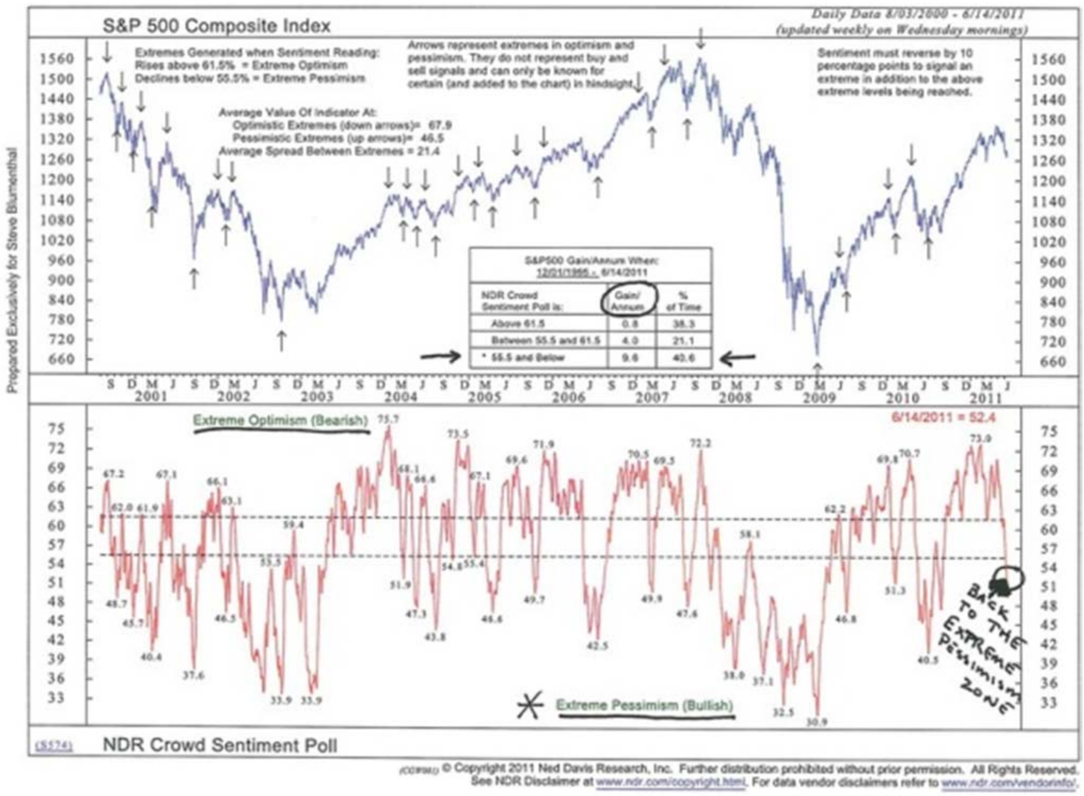
Sentiment Update: Extreme Pessimism Zone (Bullish)

In April I showed the following sentiment chart in my piece titled "A Race To The Bottom" . (I shape my big picture views in this piece. Click on the link next to my picture.) At that time, bullish sentiment was at an extreme (S&P was near 1370) and I suggested it was time to get defensive. With today's extreme bearish sentiment reading, I believe the market is set up for a short-term bottom and a short-term upside bounce. I think a subsequent rally will be short lived.

April 2011: Sentiment Chart



June 2011: Sentiment Chart June 16, 2011 – note the move to the extreme pessimism zone. I expect a bounce; however, we remain in the seasonally unattractive May – October period.



In February I wrote, "I think it is a 'sell by May and go away' type of year. Cyclical rallies within long-term secular bear periods have historically averaged 26 months (source: NDR DJIA Median Performance After Cyclical Bottoms Within Secular Bears). The bear market low of 666 occurred on March 6, 2009. 26 months later gets us to May 6, 2011." With six negative weeks in a row and the S&P 500 index down ~6% in June, so far that advice is on track. Unfortunately, also according to NDR, the average cyclical bear correction within a secular bear environment is -34%. I see the following as a probable trading range for some time to come. [Blumenthal Viewpoint: February 17, 2011]

Overall, from a technical perspective, I continue to feel that the market will be in a range between 1020 and 1450 (right hand red box in chart below). I believe it is wise to pay close attention to Investor Sentiment extremes and put on and take off protection tied to you long equity portfolio exposure accordingly. As secular periods tend to last a long time, ultimately, I see very little progress over a number of years (some good rallies and painful declines); similar to the 1966-1982 secular bear cycle.

Finally, I continue to believe we are dealing with a relatively expensive market, a backdrop of unsustainable debt, unsustainable entitlements, unsustainable deficits, all of which are driving us towards a low growth environment. This is before we tackle the coming Social Security and Medicare unfunded entitlement crisis. Let's not forget the unsustainable debt on the state and local government levels. More importantly, we are not alone. Much of the developed world is in equal or greater financial distress. It will not sustain itself as I believe we see defaults in the form of currency creation. My best guess is that global economy, and the U.S. in particular, is heading towards a period of low growth and high inflation, i.e. stagflation. This is not an environment that is friendly to the long-term equity and fixed income buy-and-hold investor. It is a period where I believe investors must think differently - more tactically. There are solutions that can help you enhance return and lower risk.

I suggested some portfolio ideas at the bottom of my April "Race To The Bottom" piece (see the section titled Portfolio Construction idea). There are a number of ways to profit in the period ahead, but I believe you must think and manage your portfolio differently than you would within a long-term secular bull environment. We'll get out of this mess and a new bull will be born once again; however, some more clean-up lies ahead.

With kind regards,

Steve

Stephen B. Blumenthal
President, CEO
CMG Capital Management Group, Inc.
150 N. Radnor Chester Road, Suite A150
Radnor, PA 19087
steve@cmgfunds.net
610-989-9090 Phone
610-989-9092 Fax