CAPITAL MANAGEMENT GROUP, INC.

Tactical Investment Solutions

The Blumenthal Viewpoint

August 13, 2011

What a week:

Below I provide some quick technical thoughts on the equity markets – probable upside targets (Charts 1 and 2) and a quick look at current investor sentiment (Chart 3). This communication relates to how you might hedge your long equity exposure. Additionally, I continue to believe a 40% allocation to diversified tactical strategies (L/S, CTA's, managed accounts, alternative MF's, etc.) is prudent. Essentially, quantitative based strategies that can trade the markets both long and short. It is valuable and important for long-term portfolio diversification.

If you are invested in our strategies, this has been an exceptional week for a number of our trading strategies. For example, Scotia Growth S&P Plus has gained on the down days and is now up over 24% for the year net of fees (through Aug 12). It is Scotia's ability to profit in both up and down trends and non-correlation to the general markets that adds value to portfolios. CMG HY avoided a 5% price decline in high yield bond funds having moved to cash in early August. On Friday, high yield bonds moved higher. A buy signal was generated and we will be trading back into high yield bond funds on Monday. I have been tactically trading high yield bond funds for nearly 20 years and have a very high win rate percentage on our trades. This is a good short-term sign supporting a temporary bottom at 1100 on the S&P 500. However, I believe it will be short-term as there remain very large structural issues. Issues we are clearly seeing played out in super fast speed. Europe is center stage – deleveraging, austerity, and political dysfunction. It is a mess. With the three major economies of the world (US, Europe, Japan) in a debt crisis, it doesn't look to me like the backdrop for strong growth. And growth drives jobs and earnings.

I shared the commentary below with a few advisors on Tuesday; prior to the Wednesday sell-off and subsequent Thursday rally. Following is an S&P chart from the March 2009 low. I believe we found support at 1100 (for now) (Chart 1). This is tied to a 38.2% Fibonacci retracement number. Ultimately, I believe we will see 1000 before the year is over. Europe is not going to go away, nor is the global deleveraging process. They too will attempt to print their way out of the crisis. These are the seeds for future inflation in a low growth environment. Chart 2 shows the expected short-term bounce targets. Chart 3 is the most recent NDR Sentiment Chart – note the extreme pessimism zone (a bullish reading). The current support tied to the extreme pessimism reading is behind my short-term recovery bounce view. I believe we will see 1200 or possibly a move towards 1250 within a few weeks. However, I believe that the highs for the year are in place at 1370.

Chart 1:

$SPX (S&P 500 Large Cap Index) INDX
10-Aug-2011 3:00pm
Open 1171.77 High 1171.77 Low 1125.34 Last 1144.26 Volume 1.1B Chg -28.27 (-2.41%)
$SPX (Daily)
CMG Capital Management Group, Inc.
Immediate support
March 2009 low at 666
Oversold

Chart 2 – Recovery targets: Below I point to three logical targets. The first is a 38.2% Fibonacci retracement of the recent 250 point sell off. The second is a 50% retracement and the third is a 61.8% retracement. There was a gap down from the 1200 level on Monday (not properly reflected on the chart but it exists). From a technical perspective, such gaps are typically filled. Since the gap coincides with the 38.2% retracement, I believe there is a high probability the market will see 1200 in the very near future. I also believe there is an outside chance that the markets will test the prior two lows (1249 in March and 1258 in June) in the 1250 area (coincidently a 61.8% retracement) – but I'm not going to be that daring with my recent 401k trade. As for when to reestablish a hedge, look to begin buying put protection at the 1200 area. 1250 marks a very significant overhead resistance.

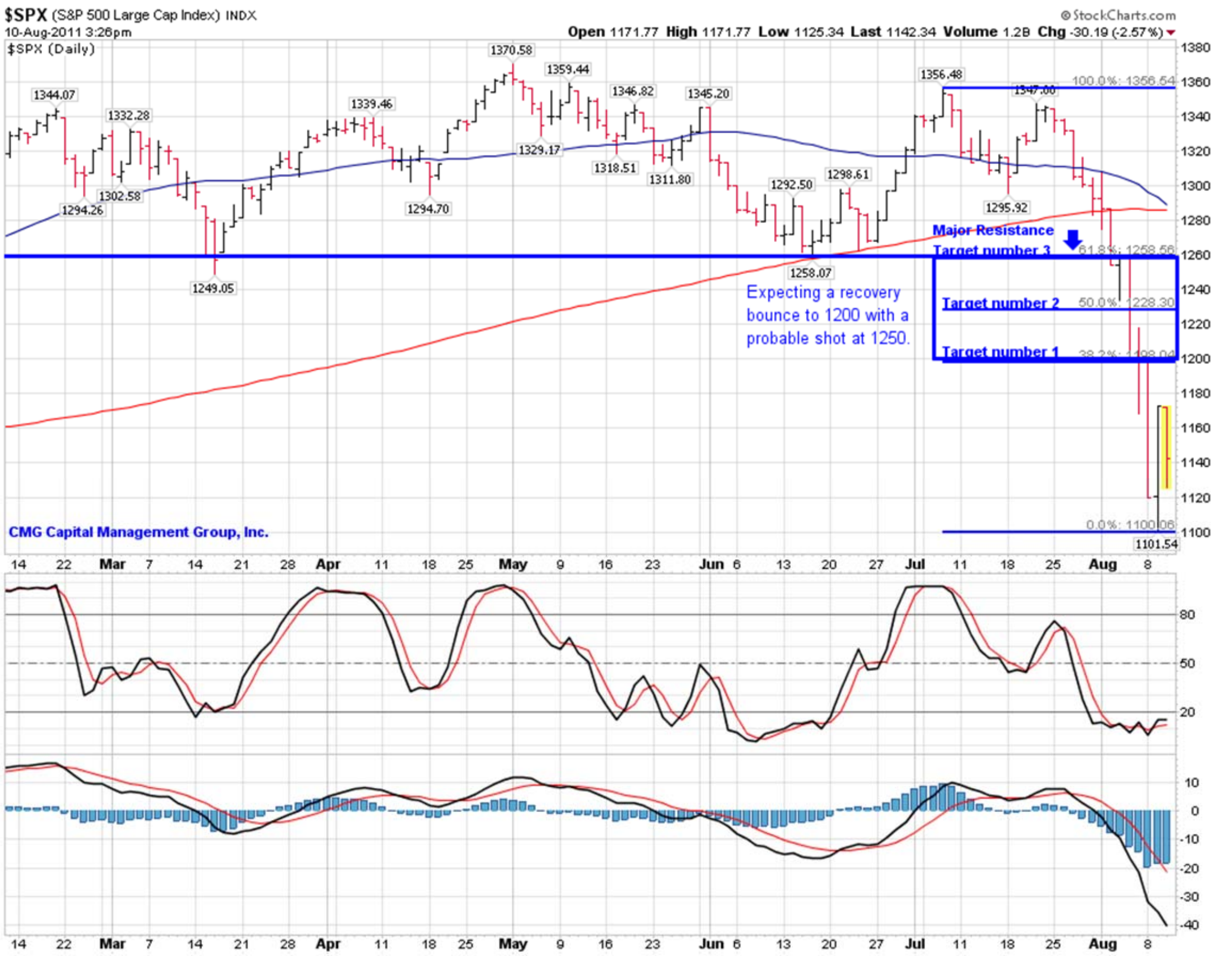
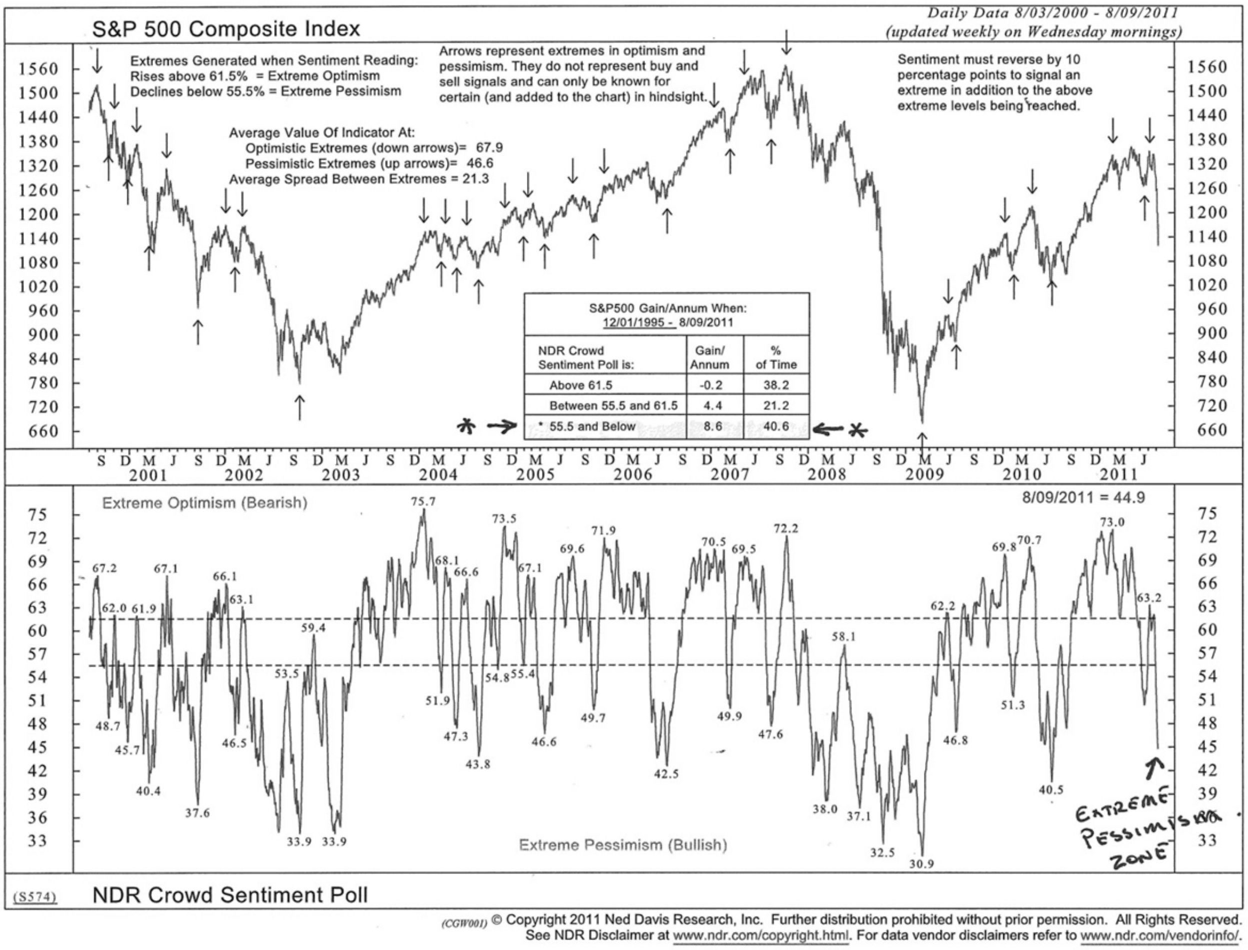


Chart 3: Investor Sentiment is in the extreme pessimism zone. That tied to the 1100 support line is behind my short-term bullish view.



I don't buy into the bullish hype from Wall Streets sell-side analysts. If you can sit and hold for 30 years, you'll be fine with your long stock exposure. The question is "if". For a balanced portfolio, I believe a better way in this secular bear environment is to allocate 30% to long equities (hedge as I've suggested), 30% to tactical fixed income and 40% to tactical and other alternative investments. If I'm wrong on my secular bear view, I believe you will still be in a position to profit (yet slightly underperform tied to the extra insurance cost to hedge your portfolio from time to time). If I am correct on my secular bear view, then I believe you will be very pleased in ten years and well positioned for a new long-term secular bull market. I'll forward an updated sentiment chart as we move closer to targets above. I hope you find this information helpful.

With kindest regards,

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