Churchill Management Group

Market Perspective

February 1, 2010

In our Market Perspective Letters of September 1st and December 31st of 2009, we laid out the classic scenario that most Bull Markets follow. We noted that often Bull Markets have two strong up-trends, or legs, separated by an intermediated correction. In our most recent letter we said:

"The current Bull Market is now almost 10 months old. The odds favor that this Bull Market will have an intermediate correction (where the popular averages fall over 10%, but less then 20% which means it is not a Bear Market by definition) in the near future. Our style will be to reduce some exposure in the Premier Wealth and Maximum Growth strategies and the Chartwell Family Funds, so we do not give back all the profits that 2009 has brought. Fortunately, the odds also favor that following this intermediate correction there will be a second great buying opportunity!"

Beginning nineteen days into January, the Market started a sharp correction. Our indicators then began signaling a high probability that we are in the *intermediate* correction to which we alluded. As a result, we have reduced our Stock Market exposure by approximately 40% in our Premier Wealth portfolios, primarily cutting back in our investments in China, Emerging Markets, and Technology, which had been the dominant leaders in the first leg of the Bull Market that began March 9, 2009.

Below is a quick look at some of our indicators and why we believe we are in only an *intermediate* correction and not a Bear Market:

I. Our **FUNDAMENTAL INDICATORS** have yet to indicate a Bear Market top is at hand. Interest rates remain very low and the stock market is not overvalued for this phase of a Bull Market. However, the economy of America has become part of a World Market with a number of major players, like China, which were never in *the game* until now. China's Central Bank on January 8th raised interest rates, which has clearly been affecting the economies of the world.

II. **TECHNICALLY**, our indicators do not give reasons to be too bearish yet. At the peak day on January 19th, most of our many Technical Indicators like the Blue Chip Averages, Mid-Cap and Small-Cap Averages, the Breadth of the Market (the Advance Decline Line), and the number of stocks reaching new highs, were all confirming the bullish up-trend. <u>On a historic basis, this technical confirmation implies that we are not yet in a Bear Market but are likely experiencing an *intermediate* correction.</u>

III. The **SENTIMENT** indicators are the most bearish of the three groups. When any group of investors goes to an extreme in any one direction, one should go the opposite way. Three of our indicators reached the level where they could be interpreted as negative on the market:

a. *The Speculation Index* showed how the investing public was getting carried away and taking more risk with their Stock Market investments as the first leg of the Bull Market was reaching its extreme.
b. *Investment Advisors* had reached a bullish extreme.
c. *Mutual Fund* managers became fully invested to a bullish extreme.

From our study of history, it would not be surprising for the market to drop 15% or so during the current correction, possibly over the next few months. However, given the mix of signals from our indicators, we believe the likelihood of a second leg for this Bull Market is high, meaning this current correction would set up a second buying opportunity for the current Bull Market cycle.

Our investment philosophy dictates that when our indicators lead us to conclude that a significant correction could be upon us, we protect capital. Although the markets have gotten very oversold on a short term basis and could be due for a bounce, consistent with our style, we have created a large liquid position to reduce the chance of giving up too much of the 2009 profits. Additionally, should our “War Room” indicators guide us to the kind of “great buying opportunity” that typically follows intermediate corrections, as history indicates, we will want to invest in the new leadership industries and groups that should lead the market during the second phase of the Bull Market.

Of course, if the market does not follow the historical path, we will follow our indicators and disciplines. We will keep you informed.

CHURCHILL MANAGEMENT GROUP

** This report is meant to inform the reader of our current market opinion, which we, as professional money managers, use in our decision-making. It should be noted that stock market and bond market data are subject to varying interpretations and any one interpretation will not necessarily guarantee investment success. The information obtained from the sources specified herein and used as basis for our current market opinion is believed reliable, but we do not guarantee the accuracy of such information.
**CMG may purchase significant positions in foreign securities in all of its investment strategies depending on perceived market conditions, often through the use of Exchange Traded Funds.

Churchill Management Group ▪ 5900 Wilshire Blvd., Suite 400 ▪ Los Angeles, CA 90036
Phone: 877-937-7110 ▪ Fax: 323-937- 0408