

Market Perspective

January 11, 2011

Happy New Year! To start 2011 off with some good news, investors should know two interesting market facts:

1. “Historically, the Dow has risen for the year 74% of the time that it was in positive territory after the first week.” – WSJ. The market was up .8% (97 points on the DJIA) after the first week of 2011.
2. Historically, the third year of the presidential cycle, like 2011, has been a Bullish year. The clear exception was the 1987 crash, but even then the market finished in positive territory for the year.

Most importantly, adding to the positive news is the fact that our top-down stock market indicators remain positive. At present, the market indices themselves remain in strong up-trends, the Small-Cap and Mid-Cap groups have recently been achieving new highs, and the broad markets, as measured by the market breadth (the advance/decline line) continue to hit all-time highs. Our sentiment indicators have started to hit some negative territory, with investors being measured as overly Bullish, but that is somewhat expected given the positive trend.

This current Bull Market started its second leg up after the “flash crash” in the third calendar quarter of 2010 behind the leading groups of Technology (largely included in the NASDAQ), Mid-Cap Growth, and Emerging Markets. Those groups have continued to be the leaders, with the exception of Emerging Markets, especially India, where because of their phenomenal growth their governments and banking system are tightening (raising interest rates) because of inflation worries (see the chart on the following page). The interest rate increases have given those markets some recent volatility.

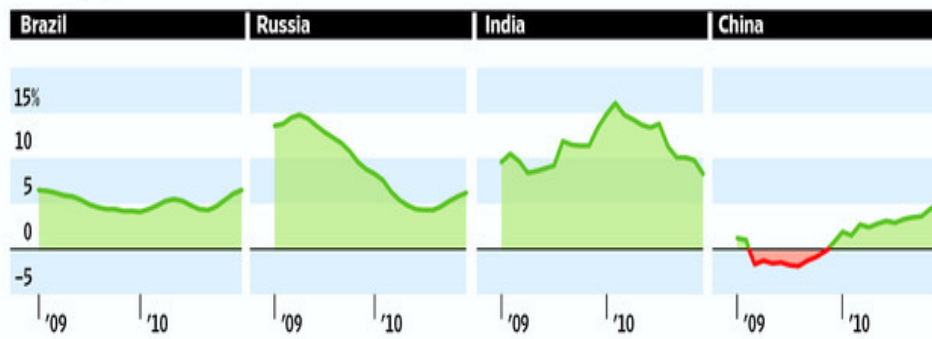
Price Tags

Inflation in the developing world contrasts sharply with low price rises, and even deflation fears, in rich nations. Consumer-price index, change from a year earlier. Latest month available.

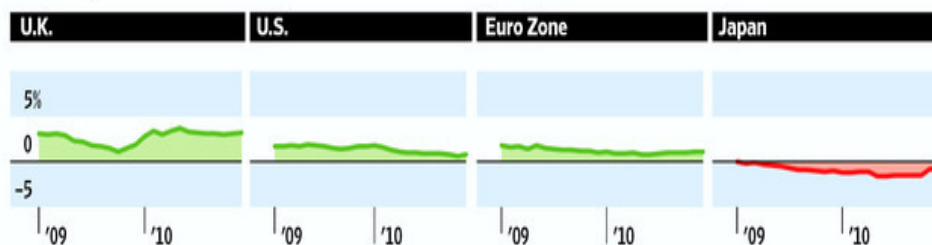
Note: Core price indexes, except for China, India and Brazil, which are for all items; core prices for the U.S. and Japan exclude food and energy; for the euro zone they exclude food, energy, alcohol and tobacco.

Source: National statistical agencies via Thomson Reuters Datastream

Emerging



Developed



From the view of our indicators, the prospects are good for a positive year in 2011. However, while we are presently optimistic, we must remember that the current Bull Market is now almost two years old. The Bull Market rally began its initial run on March 9, 2009, after the terrible Bear Market from October 11, 2007, where it dropped 54%. While it is certainly not abnormal to have Bull Markets run longer than two years, this one is getting mature. If this Bull Market continues on its normal cycle, we remind investors to not get carried away with a Bullish sentiment. We remind everyone, our style as an investment manager of almost 50 years of investing in the Stock Market is to “make it and keep it”.

With this philosophy in mind, we offer some cautious reminders:

1. The second leg of Bull Markets can get choppy. As a result, we are utilizing many ETFs in our portfolios to reduce short term volatility.
2. We want to remain Bullish until we are Bearish and let our market indicators from our Chartroom give us warning to when this Bull Market top will be complete. Currently all our indicators are Bullish, though some have reached the area of getting more questionable.
3. Finally, we will want to watch the individual stock and ETF holdings as they will give their own warning signs as to when this Bull leg is running out of steam.

Longer term, we defined the Secular Bull and Bear Markets in our recent letter dated October 10, 2010. Our Secular studies lead us to believe that there is likely to be at least one more severe Cyclical Bear Market in the future before this tough economic

Secular Bear concludes. This will be tied hopefully to one more economic cleanout, correcting the underlying economic problems. Of course, the conclusion of this Secular Bear will set the stage for a fabulous buying opportunity. But, until this Secular Bear has run its course, we need to watch our investments closely and be ready to protect.

Knowing that the Stock Market has a history of anticipating an economic turn roughly six to nine months in advance, our investment philosophy dictates that we will “let” the market tell us our next steps. Looking out further, while the third year of presidential terms have tended to be good, we are aware that the fourth year of a presidential election cycle, especially one when the party in power in the White House changes, can lead to a severe Bear Market (a. Reagan followed Carter in 1980, b. Bush followed Clinton in 2000, c. Obama followed Bush in 2008 – All severe Bear Market years.) That is obviously a ways down the road, but something to keep in the back of our minds. For now, though, we start the year with a positive outlook in the markets.

We will keep you informed and follow our disciplines carefully. We want to wish all of you a Happy and Healthy New Year.

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.