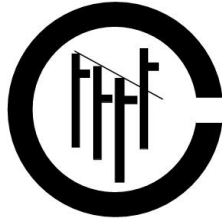


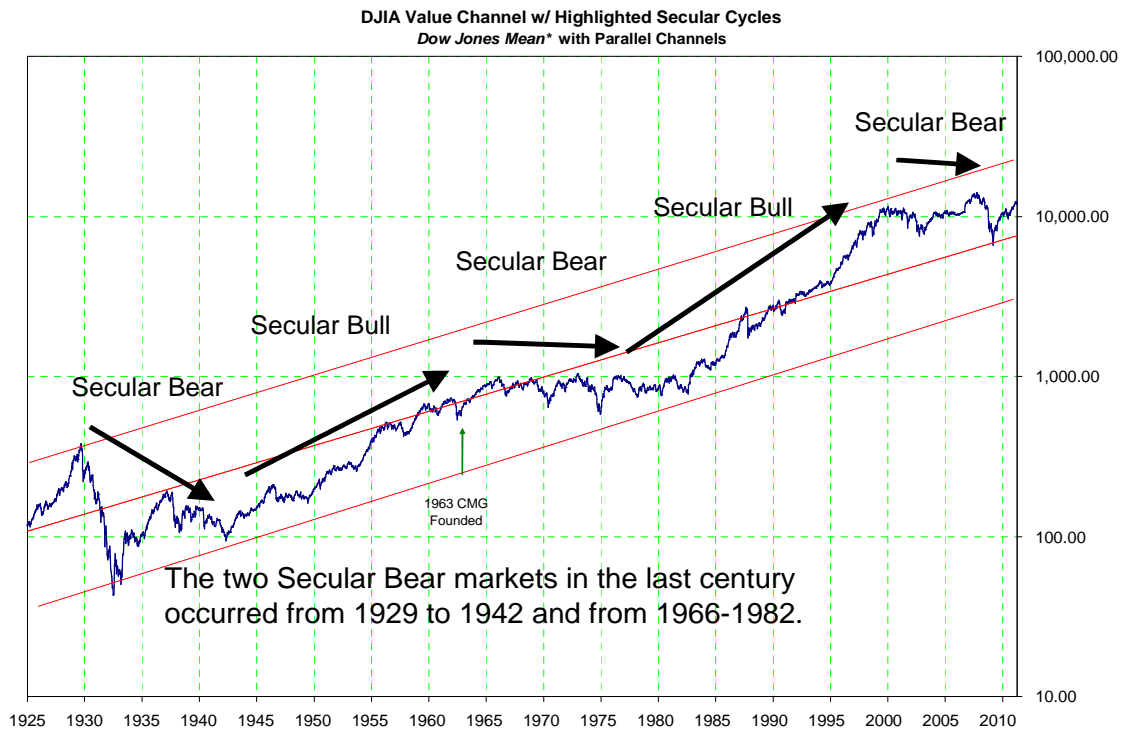
Churchill Management Group



Market Perspective

August 11, 2011

This week the Federal Reserve Board announcement pointed to its belief that the U.S. economy will likely be in a difficult period until at least the summer of 2013. This conclusion is consistent with our study of the macro-economic environments as illustrated in our chart of the long term Secular Bull and Bear markets.



We continue to believe that the Secular Bear market in stocks, which began back in 2000, will not end until after the Presidential Election in November of 2012. The Secular unwinding does not mean that there can't be a great Bull Market run between now and its conclusion, as we have seen in 2003 and 2009. It just means the U.S.

economy remains in the process of unwinding the excesses of the previous decades, and it still has more work to do. The bad news is the conclusions of Secular Bears make for volatile markets. The good news is that they are necessary to set up the outstanding buying opportunities that follow.

At present, our indicators are telling us that the stock market is now most likely in a Bear Market. In addition, the emotion in this economic environment has reached a historical extreme. In the last few days, the press has capitalized on this emotional time which has only added to the selling panic in the financial markets. The market, which had already had been in a topping phase, has swiftly worsened. Our research focusing on the individual stocks found in the major indices (Dow Jones Industrial Averages, the NASDAQ, and the S&P 500) has shown in the last week a total breakdown of a significant majority of the individual stocks in addition to the indices themselves.

Because the current Cyclical downturn in stocks is operating amid a longer term Secular Bear, history tells us that the swings are likely to continue to be more volatile. We have increased our cash positions in our Premier Wealth portfolios and do expect many dramatic bounces and declines as the market looks to form its next bottom for a buying opportunity. In the latter part of 2008, there were ten trading days that were up more than 4%, five up more than 6%, and two up more than 10%, all while the market was collapsing. The market eventually formed a bottom in March of 2009 and set up a great buying opportunity.

Fundamentally, there are many factors that lend classic support for the Secular Bear Market that we have discussed so many times. We have touched on these in past letters, but with the S&P downgrading America's credit rating coupled with the emotional trauma played up by the press, we believe it is appropriate to review the foundation of the problems the economy is facing:

- The Housing Bubble crash, which started the de-leveraging process for the financial world and the American consumer, is still playing out in the U.S. Currently, the massive inventories of homes financially under water are weighing on the market and likely will for a few more years.
- The debt from the financial crisis was transferred from the private sector (banks and individuals) to the public sector (governments around the globe) in the form of bailouts and stimulus programs. We now have a bigger top down problem that has resulted in massive debt throughout the world by both governments and individuals resulting in a de-leveraging crisis.
- Taxable income to the Federal, State, and local Governments has dropped sharply as the Economy has unwound. The decreased revenues have led to a constant crisis played up in the press. The de-leveraging crisis of the Federal Government debt reached a climax last week when the parties in power negotiated largely in the press alarming the voting public. They finally achieved a settlement to extend the debt obligations through the election year.
- The emerging market countries, primarily China and India, have taken most of the manufacturing jobs that used to reside in the U.S. Those jobs likely will not come back. Trying to come out of the lull of many centuries when their people did not

- have the benefits of a Capitalistic world, the emerging nations have expanded their economies dramatically.
- World expansion and massive monetary stimulus has led to inflation on the prices of commodities and oil. These price increases have acted as a tax on the public.
 - People are living longer, putting pressure on entitlement programs such as Social Security and Medicare. While the medical advances are a blessing, we haven't figured out how to pay for them long term.
 - The fears in Europe are now alarming many people that the European Union could collapse.

While the fundamental background to the world economics is alarming, our many years of studying the economic cycles leads us to conclude that this is normal human behavior. There have been economic crises in the world for centuries. This is true from when Kings and Queens ran Europe, to the 19th Century railroad panic which led to the establishment of the Federal Reserve in 1913, to the great crisis that led to World War I with the post-war horrible inflation in Germany (which many believe brought the Nazi Party into power) to the massive excess capacity and debt that came from the Industrial Revolution into the “Roaring 20’s” and so on. There are dozens of examples which we obviously excluded.

The point is that we believe we are going through the normal cycles of economic life — led by human behavior and simply put, just like the Stock Market, life generally goes “up and down!”

In fact, the events and the background that caused the Secular Bear from September of 1929 to April of 1942 make the problems in our world today look minor. We know the sophistication of our economic leaders, like Federal Reserve Board Chairman Ben Bernanke, is far greater than those that led the country during previous times. We know that to get through these Secular Bears, all of the excesses created by humans need to be completely worked through. It is not a fun process, but the good news is it appears we are now entering the closing episode of the Secular Bear that began on January 14th, 2000 with the bursting of the Tech Bubble.

Remember, Winston Churchill said “democracy is the worst form of Government on earth, except for all the rest.” Despite Standard and Poor’s recent negative action, we are quite confident that the democracy Winston Churchill refers to will work its way through these difficulties. We are confident that shortly after the Presidential Election in November 2012, the political and financial leadership will create the plan that will get us through our current problems throughout the world and lead to another blessed Secular Bull. The past two Secular Bears ended a year and a quarter and a year and a half after the Presidential elections of April 1942 and July 1982 when the campaigning has ended and political leaders were more focused on fixing problems than getting elected. Democracy works, but when the serious problems arrive “you get many years of smoke before the fire” which finally correct the problem.

Of course, the Bear Market in stocks will have to run its course. Since Churchill Management was founded there have been 11 Bear Markets. We will let our research indicators, using both the Top Down and Bottom Up process, guide us on when to take advantage of what we call the "buy zone" that comes off the bottoms of bad markets. Until we get the signs of a lower risk bottom, our plan is to keep a large liquid position in our Premier Wealth portfolios waiting to take advantage of the next buying opportunity. Even if the market were to unusually turn and run up from here, a cautious stance is appropriate in the current environment.

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.

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