

Churchill Management Group



Market Perspective

October 24, 2011

Three weeks ago today, the stock market was dropping to a new low on increased trading volume and looked like it was breaking down, confirming our Bearish stance from a couple months earlier. Almost immediately, the market turned sharply and began to head up, and it has now posted three consecutive positive weeks.

However, the rally has been on very light trading volume. This is a signal that the rally lacks power and conviction on a technical basis. Additionally, the market is currently on the threshold of running into significant technical resistance in the form of overhead supply. See the below charts of DJIA, S&P500 and NASDAQ, where we have identified the 200 day moving average resistance point in technical terms. This is just directly above the current levels.

DJIA





We cannot overlook that the stock markets around the world collapsed and continue to look troubling. The fundamental news stemming from Europe continues to be bleak. With the European crisis possibly approaching a climax in the next week, the market has been heavily influenced by daily news reports.

However, this could indeed be the beginning of a new Cyclical Bull Market. If it is, there will likely be new leadership (a pattern we have not yet observed), and we would just be in the earlier part of the bottoming process (which is the process that follows Bear Markets and leads to Bull Markets). Our bottom-up individual stock selection process has not yet indicated that a new cyclical Bull Market has begun, and we are finding very few stocks or leading sectors to buy. Of course, if our indicators dictate risks are subsiding, we may start taking some equity exposure.

In our August 11th letter, we described what is known in the investment world as the 1937 scenario. It continues to appear we are in that choppy period. The risk of being whipsawed during short-term rallies is high, so we will want to proceed with caution to ensure that the table is set for a sustainable run that will have legs and not just one that is bouncing around within a trading range.

Finally, it is completely normal for multi week rallies to occur within Bear Market moves. They were prevalent throughout the 2007-2008 and 2000-2002 declines. Until we receive confirmation from our indicators that a clear bottom has been formed, we will want to proceed with caution. We are watching the market very closely for those signals, and should we receive positive confirmation, we would then want to take on some market exposure in our Premier Wealth portfolios.

We will keep you informed. We will also be emailing out a webinar over the next week to those clients that have signed up to receive email updates from us.

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** 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.