September/October 2009

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Asset Class Outlook

CIOVACCO CAPITAL MANAGEMENT

Post Recession Results Favorable

On September 15, 2009, Federal Reserve Chairman Ben Bernanke said the current recession is "very likely over." As depicted in Chart 1, the two year period following the end of recessions tends to produce favorable investment outcomes for investors. In nine out of the last ten cycles when recessions came to an end, the stock market had already climbed above its 200-day moving average giving technical confirmation to an improving fundamental outlook (the exception was 2001). Point B in Chart 1 would hypothetically occur in July of 2011. With 2009 year-end approaching fast, Table 1 shows the market's performance during the first five months following the end of a recession. If we assume the 2009 recession ended on July 31, 2009, five months would correspond with December 31, 2009.

Table 1: A Friendly Five Months

	Gain Five Months After Recession Ended	Hypothetical S&P 500 12/31/09 Equivalent
1949	10.29%	1,089
1954	9.42%	1,080
1958	14.32%	1,134
1961	5.15%	1,042
1970	19.99%	1,193
1975	0.72%	1,000
1980	11.23%	1,103
1982	17.63%	1,166
1991	4.97%	1,040

In This Issue:

Chart 1 - Two Years Following Recession

Composite stock market performance two years after the end of historical recessions. Assumes 2009 recession ended on July 31, 2009 (Point A) with the S&P 500 Index trading at 987. Historical recessions ending in 1949, 1954, 1958, 1961, 1970, 1975, 1980, 1982, and 1991 (excludes 2001).

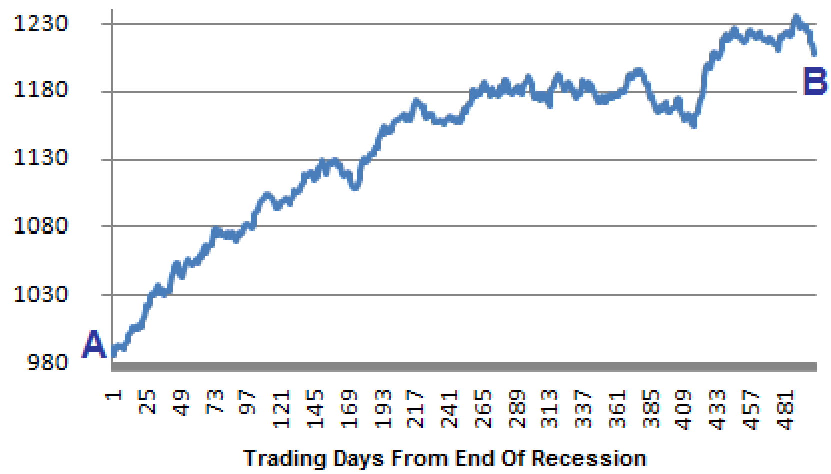
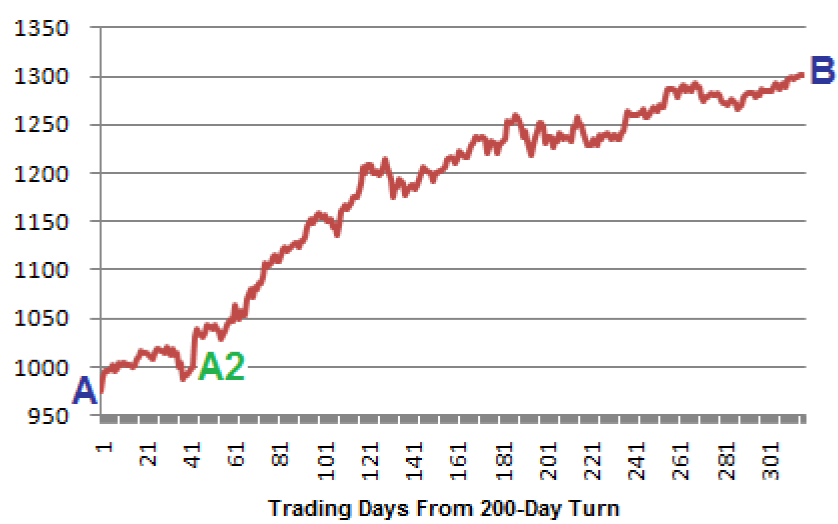


Chart 2 - Similar Bears: After The 200-Day Turned

Composite performance 315 trading days after the 200-day moving average turned up following declines of 35% or more. Using prior declines lasting at least 515 calendar days. Five cases meet the criteria since 1929; following the lows in 1932, 1942, 1970, 1974, and 2002. Composite below is the average path of the five cases cited after the 200-day moving average turned up, NOT from the market bottom.



A is analogous to July 29, 2009 (when 200-day turned)

A2 represents 42 trading days after the 200-day turned and is analogous to September 28, 2009

B would hypothetically occur in the fall of 2010

The Market's Percentage Gains Can Be Misleading

When investors hear about the eye-popping percentage gains off the March 2009 lows, they feel they have certainly missed the boat or that they would have been better off in a buy-and-hold mode since the October 2007 highs. Table 2 may help clear up some of the misconceptions about buy-and-hold. Despite the 50% plus gains off the March 2009 lows, a buy-and-hold investor in the S&P 500 Index STILL needs to make 48.8% to get back to BREAK EVEN relative to the October 2007 highs. When the annual returns for 2009 go into the history books, the huge rally off the March lows will slowly fade into history as similar rallies have in 1932, 1938, 1942, 1974, and 2003. The annual return record will post a much more reasonable and easy to grasp gain for the S&P 500 (should the rally hold up as history suggests).

Table 2 - Buy-and-Holders Still Way Down

The S&P 500 Index Still Needs To Gain 48.8% To Get Back To The Levels Seen In October 2007

Top	October 2007	1,565
Bottom	March 2009	676
Percent Change		-56.8%

Bottom	March 2009	676
Current	September 2009	1,052
Percentage Change		55.6%

Current	September 2009	1,052
48.8% of 1,052 is		513.38
Add Gain to Sept 2009 Level		1,565

Economic Conditions Were Far Worse In 1937-1938

While the decline of 49%, which occurred in the Dow from March of 1937 to March of 1938, only took 386 days to unfold (vs. the 517 days in 2007-2009), it still represents a similar situation to the current day. If we followed a similar path to 1938 from the turn of the S&P 500's 200-day moving average on July 29, 2009, the S&P 500 Index would peak at 1,121 on December 3, 2009. In a September 1, 2009 opinion column in the Wall Street Journal, Allan H. Meltzer, a professor of economics at Carnegie Mellon University, presented Table 3 below, which illustrates a dire economic situation in 1937-1938. From an economic perspective, 1937-1938 was much worse than our current experience.

Table 3 - Comparing Difficult Economic Periods

Period	Duration In Months	Decline In Real GDP	Decline In Industrial Production	Unemployment Rate Increase	Unemployment Rate Max. Rate
2007-2009	18*	3.80%	16.90%	4.60%	9.50%
1937-1938	13	18.20%	32.40%	9.00%	20.00%
1973-1975	16	4.90%	15.30%	4.40%	9.00%
1981-1982	16	3.00%	12.30%	3.60%	10.80%

* 2009 recession has not yet officially been declared to be over

A Significant Correction Back Toward The 200-Day Moving Average May Not Come For Several Months

In the context of an established and on-going bull market, it is common for traders and value investors to look for a pullback toward the 200-day moving average as a logical entry point for new purchases. What may be frustrating them in the current environment is that new bull markets, especially after significant bear markets, may not correct back toward the 200-day for an extended period of time. As shown in Table 4, in four similar instances, a significant pullback did not occur on average until 270 calendar days after the original cross of the 200-day moving average. Table 5 uses the S&P 500's July 10, 2009 cross of the 200-day to estimate hypothetically when a pullback might begin, assuming the market behaves in a similar manner relative to history. A typical path in 2009-2010 may not produce a significant pullback toward the 200-day until the spring of 2010.

Table 4 - Historical Pullbacks Toward 200-Day

Period	Break From 200-day MA	Significant Pullback Began On	Calendar Days
1942-1943	7/6/1942	7/13/1943	372
1970-1971	9/25/1970	4/29/1971	216
1974-1975	1/31/1975	7/15/1975	165
2003-2004	4/11/2003	3/4/2004	328
		Average	270

Table 5 - Hypothetical 2009-2010 Pullbacks

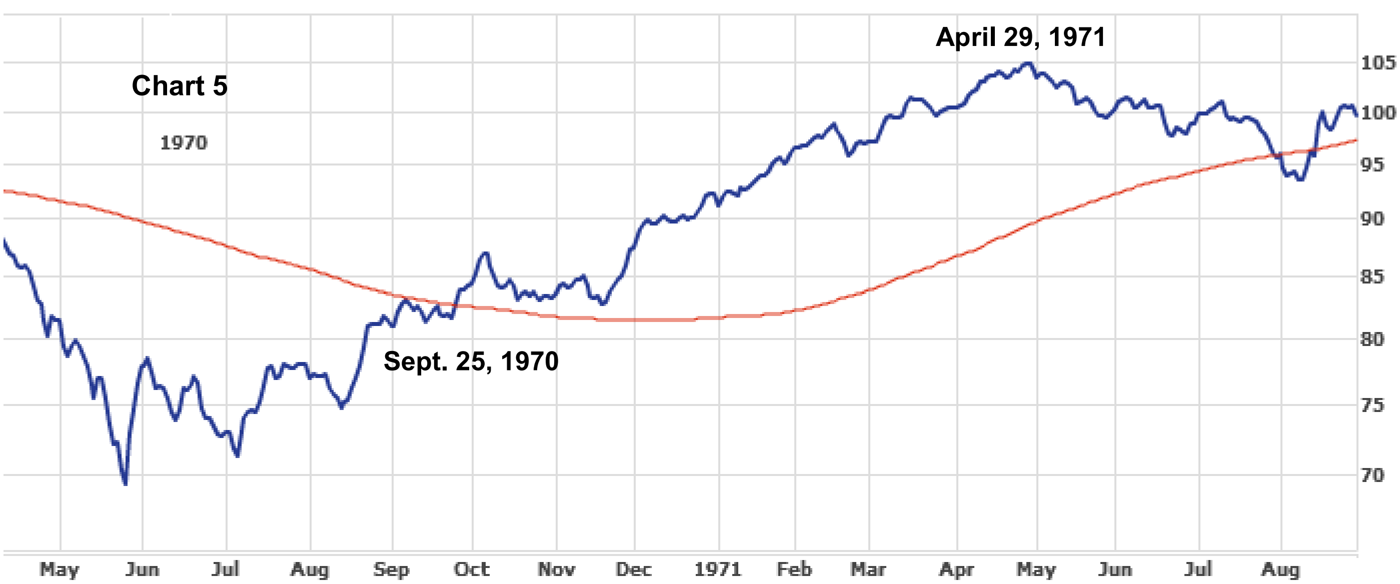
If 2009 Is Similar To:	Calendar Days To Pullback	Significant Pullback Toward 200-Day Would Begin On
1942-1943	372	7/17/2010
1970-1971	216	2/11/2010
1974-1975	165	12/22/2009
2003-2004	328	6/3/2010
	Average	4/6/2010

S&P 500 Index (2008-2009): As of 9/15/2009, the S&P 500's 200-day moving average stands at 889, which is 18% below the current value. History shows that in the early stages of a new bull market a significant pullback toward the 200-day may not come for several months (see next three graphs).

A Significant Correction Back Toward The 200-Day Moving Average May Not Come For Several Months (cont.)

Dow (1942-1943): It took 372 calendar days for a significant move back to the 200-day after the market broke away from the 200-day in July of 1942.

S&P 500 Index (1970-1971): It took 216 calendar days for a significant move back to the 200-day after the market broke away from the 200-day in September 1970.



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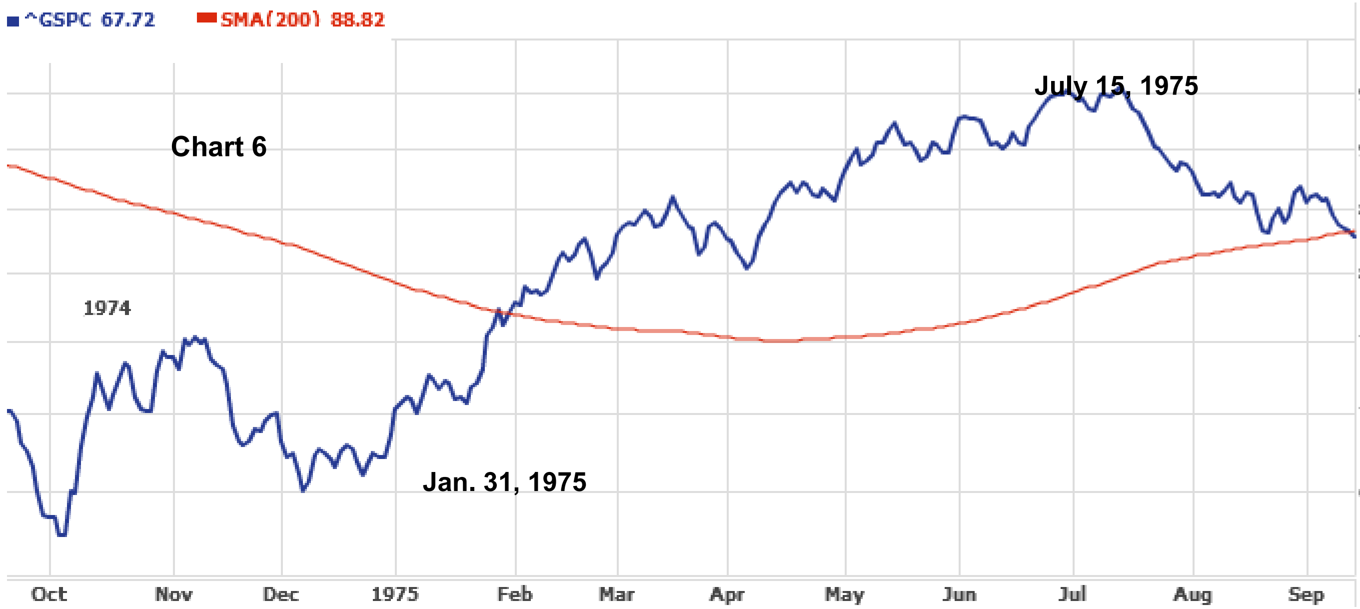
A Significant Correction Back Toward The 200-Day Moving Average May Not Come For Several Months (cont.)

S&P 500 Index (1974-1975): It took 165 calendar days for a significant move back to the 200-day after the market broke away from the 200-day in January 1975.



S&P 500 Index (2003-2004): It took 328 calendar days for a significant move back to the 200-day after the market broke away from the 200-day in April of 2003.

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(1982-1994): Stocks Can Go Up During A Banking Crisis

2,335 FDIC-insured financial institutions failed in the period 1982-1994.

Table BF02

Federal Deposit Insurance Corporation
Failures and Assistance Transactions

Number of Institutions
United States(50 states and DC)
1982 - 1994

Table 6

Source: FDIC

Year	Total Institutions*	Fail	Assist	Ins. Fund: DIF*	BIF	SAIF	RTC	FSLIC	FDIC	Transaction Types: A/A	IDT	MGR	P&A	PA	PI	PO	REP
1994	15	15	0	0	13	0	2	0	0	0	2	0	0	6	7	0	0
1993	50	50	0	0	41	0	9	0	0	0	0	0	0	12	30	8	0
1992	180	178	2	0	121	0	59	0	0	2	14	0	0	106	46	12	0
1991	271	268	3	0	127	0	144	0	0	3	18	0	0	231	10	9	0
1990	381	380	1	0	169	0	212	0	0	1	46	0	0	284	6	44	0
1989	534	531	3	0	64	0	318	9	143	3	140	0	43	276	0	71	1
1988	470	232	238	0	0	0	0	190	280	238	43	17	0	165	0	7	0
1987	262	217	45	0	0	0	0	59	203	45	55	14	0	133	0	15	0
1986	203	161	42	0	0	0	0	59	144	42	33	6	0	97	0	25	0
1985	180	139	41	0	0	0	0	60	120	41	26	0	0	87	0	26	0
1984	103	82	21	0	0	0	0	24	79	21	16	0	61	0	0	5	0
1983	98	49	49	0	0	0	0	51	47	49	8	0	34	0	0	7	0
1982	117	33	84	0	0	0	0	76	41	84	0	0	24	0	0	8	1
Total	2864	2335	529	0	535	0	744	528	1057	529	401	37	162	1397	99	237	2

*- includes institutions where assistance was provided under a systemic risk determination.

2009: Banking Problems Remain

Many market observers are justifiably concerned about numerous problems facing the banking and financial sector. In today's tight credit environment, concerns center around the large number of commercial real estate loans that are coming due in the next 18 months. More banks are going to fail – that is a given – and many more are going to run into trouble. During and in the aftermath of the savings and loan crisis of the 1980s and mid 1990s, literally thousands of FDIC-insured institutions failed (see the FDIC's table above). Similar to today's environment, many of the problems with the savings and loans were known problems that took years to work through. Since the financial markets understood most of the issues before they resolved themselves, stocks were able to gain 274% while over 2,300 banks failed in the period of 1982-1994 (See Chart 8 to right).

Chart 8: S&P 500 (1982-1994): While 2,335 FDIC-Insured Financial Institutions Failed, The S&P 500 Went Up 274%

1974-1975 and 2000-2002 May Offer The Best Insight

As shown in Table 7, the 1970s experienced market leadership that is quite similar to our experience since the March 2009 lows. The market's performance after the 2000-2002 bear market offers similarities in the form of aggressive central bank policy, a weak recovery in terms of job creation, and low inflation. Tables 8A and 8B present the results of studying false rallies in the periods of 1974-1975 and 2000-2002. The maximum number of days the market was able to stay above its 50-day moving average during a bear market (or false) rally was 73 calendar days. In 2009, the S&P 500 last crossed its 50-day on 7/10/2009, which means it passed the 73 day mark on 9/22/2009. In the periods of 1974-1975 and 2000-2002, the maximum number of days the market was able to stay above its 200-day moving average during a bear market (or false) rally was 25 calendar days. The current rally is well past that benchmark with 9/22/2009 marking day 70 of the S&P 500's stay above its 200-day. Using these parameters, the current rally looks more like a new bull market rather than a bear market rally.

Table 7: Average Annual Returns (1971-1976)

Emerging Markets	51.38%
Precious Metals	26.27%
Physical Commodities	24.10%
Foreign Sm-Cap / Md-Cap	22.20%
Metals & Mining Stocks	16.01%
Agriculture - Commodity	14.71%
Mid Cap Growth - U.S.	9.61%
Timber Stocks	9.56%
Foreign Bonds	9.31%
Agricultural Stocks	9.03%
Steel Stocks	8.73%
Large Cap Stocks - U.S.	8.69%
Treasury Bonds	8.03%
Dividend Stocks - U.S.	7.51%
Corporate Bonds	7.28%
Foreign Real Estate	5.84%

Table 8A: False Rallies (1974-1975) and (2000-2002)

Unsuccessful Bear Market Crosses of 50-Day Moving Average

Cross Over	Cross Back Under	Days
July 16, 1973	August 9, 1973	25
September 19, 1973	November 1, 1973	44
February 21, 1974	March 27, 1974	35
June 6, 1974	June 13, 1974	8
December 11, 2000	December 11, 2000	1
January 18, 2001	February 7, 2001	21
April 18, 2001	June 13, 2001	57
November 2, 2001	January 13, 2002	$\boxed{73}$
March 1, 2002	April 2, 2002	33
August 17, 2002	August 27, 2002	11
March 24, 2008	March 26, 2008	3
April 1, 2008	April 10, 2008	10
April 16, 2008	June 3, 2008	49
June 5, 2008	June 5, 2008	1
August 11, 2008	August 11, 2008	1
August 13, 2008	August 17, 2008	5
August 22, 2008	August 24, 2008	3
August 27, 2008	September 3, 2008	8

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Table 8B: False Rallies (1974-1975) and (2000-2002)

Unsuccessful Bear Market Crosses of 200-Day Moving Average

Cross Over	Cross Back Under	Days
October 5, 1973	October 30, 1973	$\boxed{25}$
January 4, 2002	January 6, 2002	2
March 4, 2002	March 4, 2002	1
March 6, 2002	March 22, 2002	16

Negative Sentiment and The "Death of Equities"

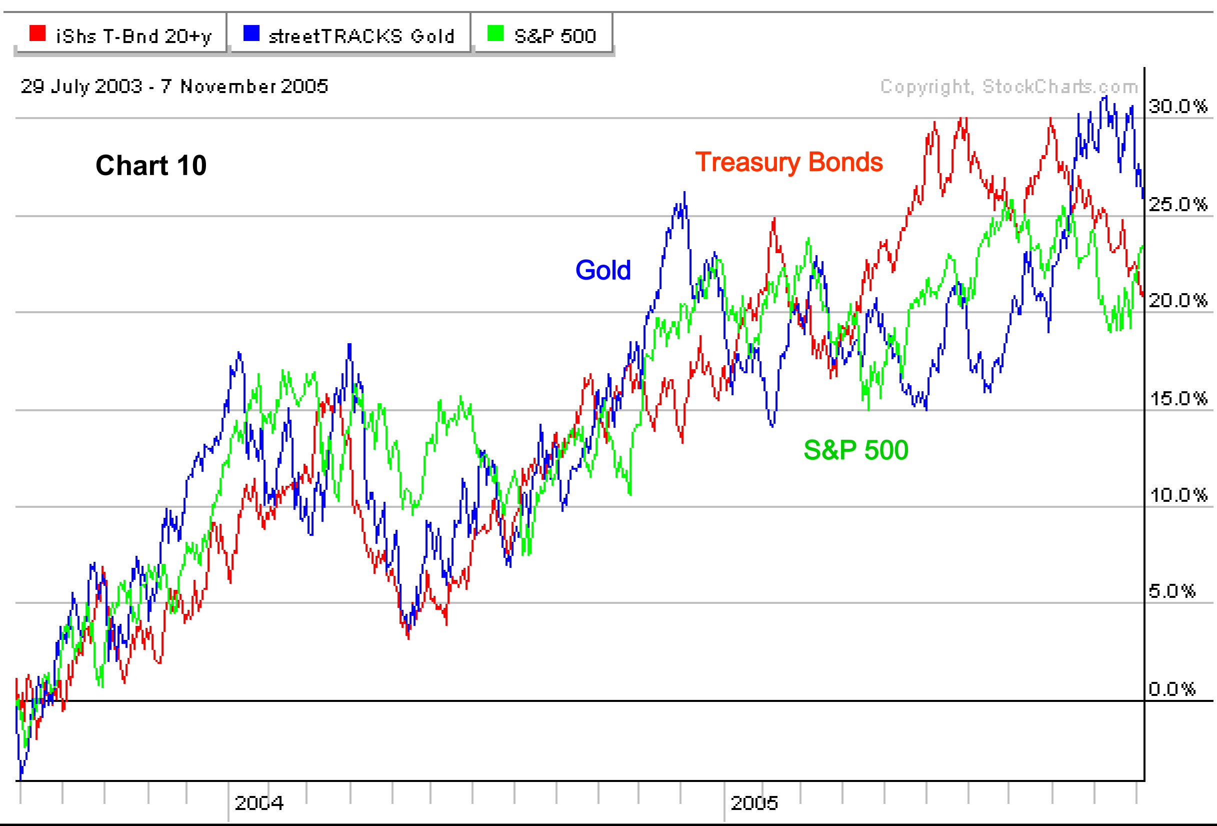
With the Dow trading at 880 (yes, 880) in August of 1979, BusinessWeek's cover story announced the "Death of Equities," which is often referenced as "the" example of contrary indicators / negative sentiment. The Wall Street Journal provided some contrarian support for stocks when it published "Rethinking Stocks' Starring Role" on September 2, 2009.

The NADSAQ's Monthly Chart (1995-2009) Recently Had A Bullish Cross (EMA 10 > EMA 16)

Moving average crossovers can help us monitor possible changes in mass psychology. The NASDAQ's 10-month exponential moving average (EMA – see red line in Chart 9 to the right) recently crossed its 16-month simple moving average (MA or SMA). Since late 1994, this cross has coincided with changes in the long-term primary trend. The recent cross adds to the evidence backing a sustainable change in trend rather than a shorter-term head fake.

The Bond Market Is Not Necessarily Disagreeing With The Stock Market

Talking heads often refer to the ominous and conflicting signals being flashed by the bond, stock, and gold markets. The thinking is that one market has to be right and one market has to be wrong. Stocks, bonds, and gold, as shown below, can all move in the same direction for long periods of time. The graph below covers a period of over two years in a similar environment to what we have today – low inflation, low interest rates, an expectation of rates staying low, and an improving economic climate.



Dollar May Have Further Downside

Monthly charts can help us focus on the long-term trend while removing some of the day-to-day noise. The monthly chart of the U.S. Dollar Index shows that we remain below the lows made back in 1992, 1995, and 2004. The oscillators also show the potential for more downside over the coming months (see green circles). Countertrend rallies should be expected in any market, including the dollar.

Dollar Weakness Supports Risk

The U.S. Dollar Index (dollar) recently made new lows for 2009. Generally speaking, a weak dollar supports commodities, non-U.S. assets, and commodity-related currencies. As of 9/24/2009, Chart 11 does not indicate an impending shift in the primary downtrend for the dollar. The dollar's monthly chart supports the continuation of bullish primary trends in risk assets. There is nothing in Chart 11 which points to an imminent reversal in global stock markets. Trends are always subject to change, but there is no need to guess or forecast concerning a possible reversal – it is better to wait for evidence of a change or impending change. We assume we will get more of the same until we see significant evidence to the contrary, which means more than a normal countertrend rally. Numerous fundamental problems, including ever-increasing U.S. budget deficits, also support a weaker dollar over the longer-term.

Chart 11: U.S. Dollar Index

The 1980s Double-Dip Does Not Compare Well With 2009

While double dip recessions are possible, they are rare. The 1980 case is often cited as a possible model for 2009-2011. The first dip in 1980 lasted only six months. Our current recession probably lasted nineteen months, assuming it ended in July 2009. Significant factors in the second dip, which occurred in 1981-82, were high inflation and rising interest rates. Annual CPI inflation was 11.3% in 1979, 13.5% in 1980, and 10.3% in 1981. Annual inflation was 2.8% in 2007, and 3.8% in 2008. 2009 CPI inflation has been negative YTD. In 1979, the Federal Funds Rate was

Low Interest Rates Encourage Savers To Invest

According to Bankrate.com, the average one-year CD is paying 1.71%. Low rates have savers looking for alternatives in the form of stocks, bonds, commodities, and real estate. The Fed understands this, and wants savers to help them drive asset prices back up. If home values rise, it helps the Fed with the banking crisis. If mortgage-backed securities increase in value, it helps balance sheets around the globe. If 401(k)s continue to rise, consumers will feel better about consuming.

The 1980s Double-Dip (Continued)

between 10% and 15%, in 1980 between 8% and 20%, in 1981 between 12% and 20%. In 2009, the target Federal Funds Rate is between 0% and 0.25%. High inflation during 1980-1982 hurt profit margins. Rising interest rates from 1979 to 1981 constrained growth and consumption. While 2009 has its own set of significant challenges (like excess capacity), neither high inflation nor high interest rates are among them.

Gold Bullish, But Not Wildly So

Chart 12 (below) has a bullish formation in the form of an ascending triangle (pink lines). However, the short stays on the bullish end of the triangle (red arrows) and clustering near the bearish end of the triangle (red boxes) indicate that more basing may be needed before a really big move in gold can occur. The red arrows show a lack of conviction by the bulls when prices get high – traders are quick to sell. The clustering in the red boxes does show buying support at lower levels, but not enough to move rapidly away from bargain prices. Typically, we would also like to see a breakout from an ascending triangle occur in the first 2/3rds of the triangle, which is not the case in 2009. These are not bearish indications for gold, based on conditions as of September 25, 2009. They are not jump up and down bullish either. Chart 13 (right) highlights a second bullish chart pattern in the form of an inverted head-and-shoulders bottom. If gold can close above 1,034 for two or three days, accompanied with very strong volume in the GLD ETF, then our (see above) confidence in the probability of a larger move would increase greatly. With the economy saddled with excess capacity from factories to hotel rooms, gold's relatively tame behavior is not all that surprising in the short-to-intermediate term. In fact, gold may be giving the Fed a little more leeway relative to their exit strategies concerning numerous stimulative programs and practices. Stimulative polices and low CPI inflation may provide an ongoing environment for asset inflation.

Chart 13: Gold (2007-2009) - Bullish Pattern

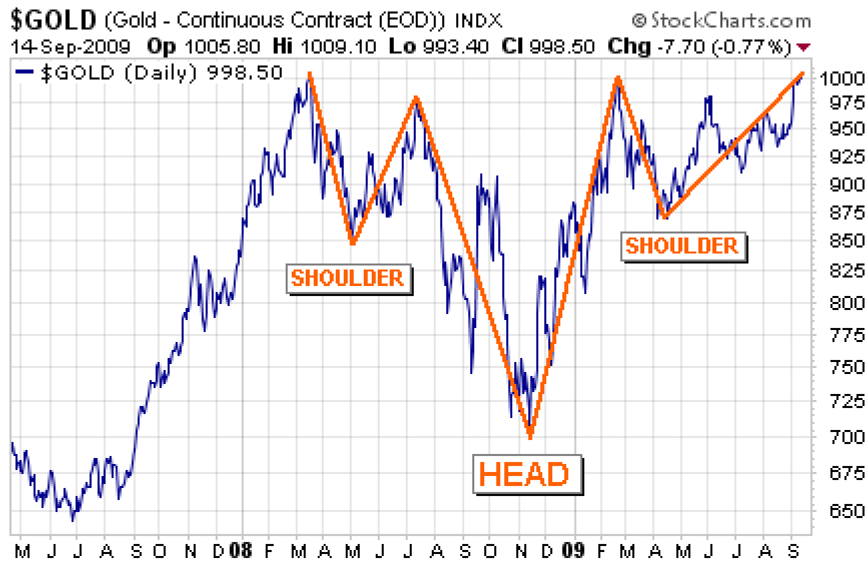


Chart 12: Gold's Ascending Triangle

Breadth Remains Supportive Of Gains

When stocks were making new highs in mid-September, the NYSE New High / New Low Index (highs minus lows) also made a new high (Chart 14). The current rally remains broad-based which is indicative of a healthy market. The S&P 500 Index is shown in green. Similarly, in mid-September, 94% of the 500 stocks in the S&P 500 were above their 200-day moving average (Chart 15).

Chart 14: NYSE New High - New Low Index

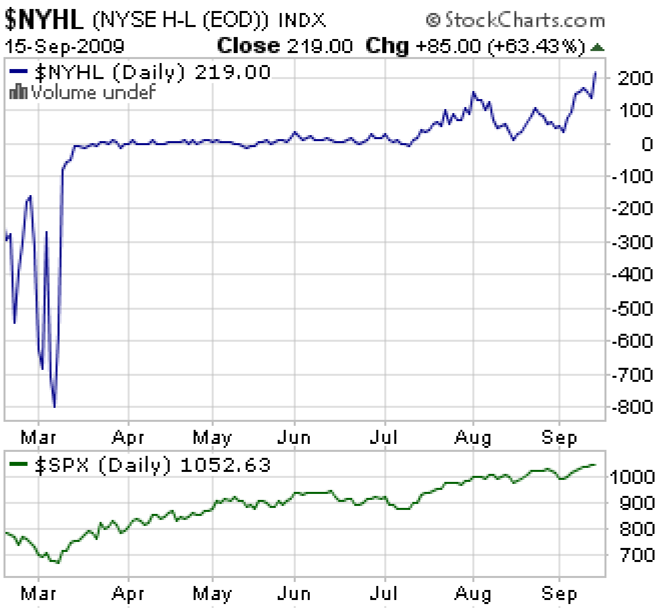
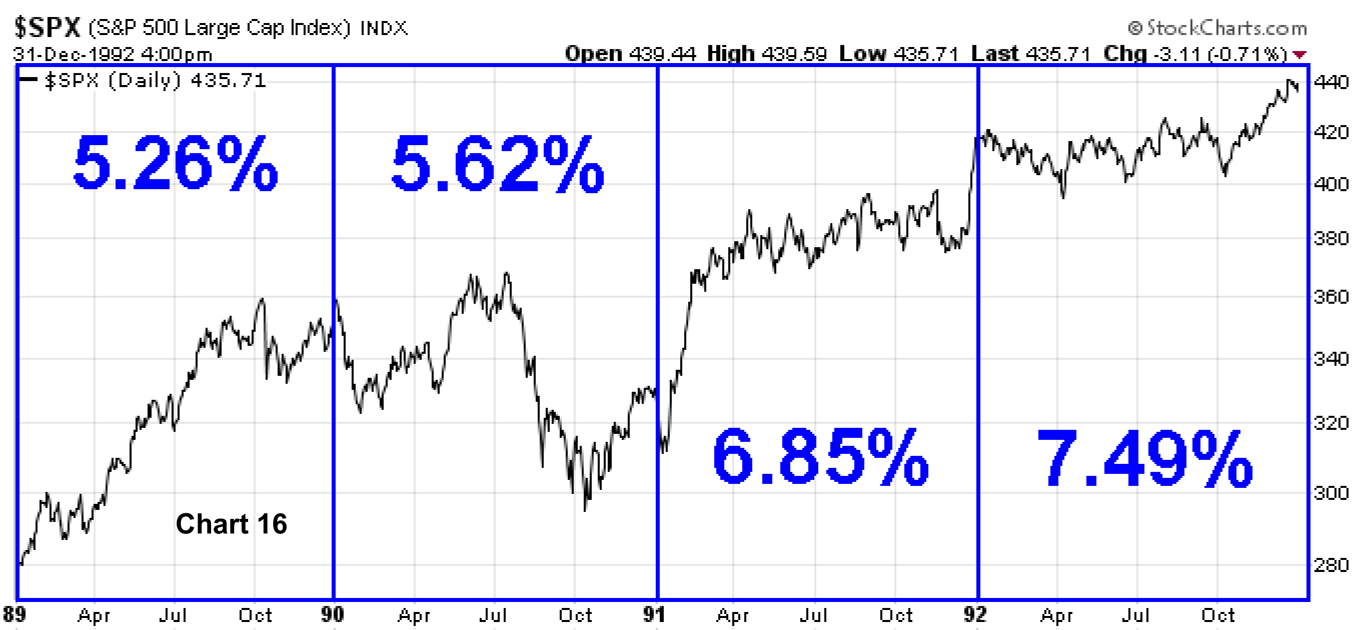


Chart 15: S&P 500 Stocks Over 200-Day MA

Stocks Can Rise As Unemployment Increases

In a consumer driven economy like ours, it is reasonable to be concerned about rising unemployment. However, it is possible for stocks to gain as unemployment rises. While far from typical, the S&P 500 gained 58% in 1989-1992 as the unemployment rate rose from 5.26% to 7.49%.

S&P 500 Index (1989-1992) With Unemployment Rate In Blue



"Valuations Are The Highest Since..."

If you read Bloomberg stories regularly, you will be familiar with recent references to specific markets having the highest valuations since 2002 or 2003. For example, a September 17, 2009 Bloomberg article points out that the recent gains in the Dow Jones Stoxx 600 Index have driven valuations to 46.8 times profit, the highest level since 2003. At the end of recessions stocks turn before the economy, and hence, stocks lead earnings. As economic conditions improve, earnings pick up which brings down valuations. As Chart 17 shows (right), investing in the Stoxx 50 at high valuations in 2003 turned out to be a good move. From a September 17, 2009 Bloomberg article, *"Valuations in the S&P 500 rose to about 19.3 times the reported earnings from continuing operations of its companies as of Sept. 11, the highest level since June 2004, according weekly data compiled by Bloomberg."* Chart 18 shows the S&P 500 gaining 40% after beginning from high valuations in June of 2004.

Chart 17: Stoxx 50 (2003-2007)

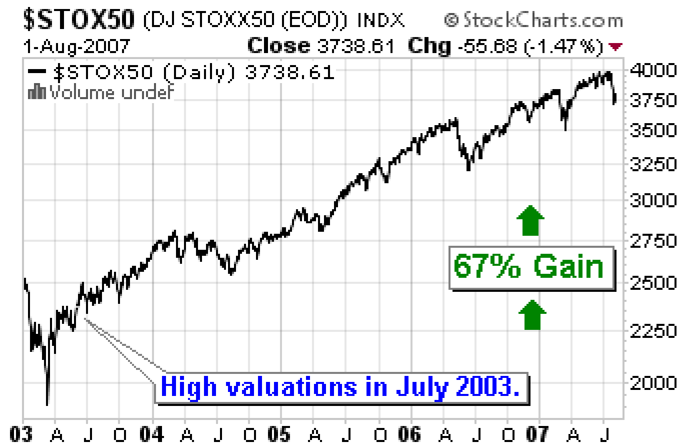
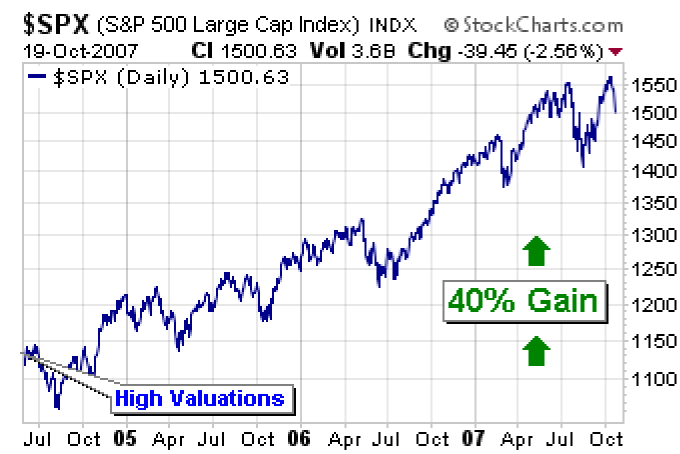


Chart 18: S&P 500 Index (2004-2007)



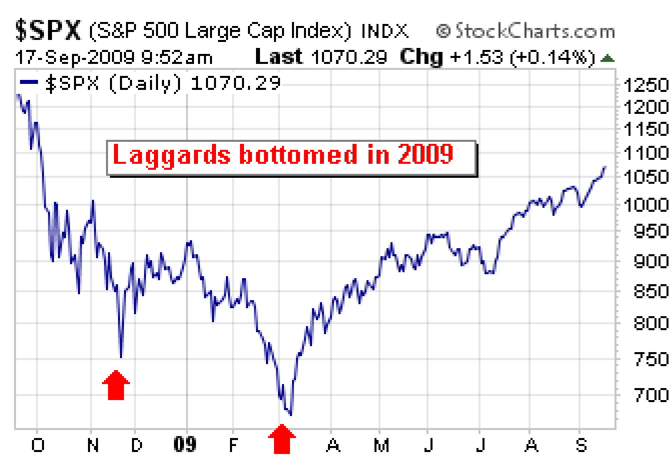
2010 GDP Forecasts
Percent Change From Prior Year

China	8.50%
India	6.30%
Singapore	3.20%
South Africa	3.10%
Brazil	2.70%
United States	2.50%
Turkey	2.30%
South Korea	2.00%
Australia	2.00%
Sweden	1.70%

Source: Economist

Technical Leaders Are Also The Leaders In Economic Growth

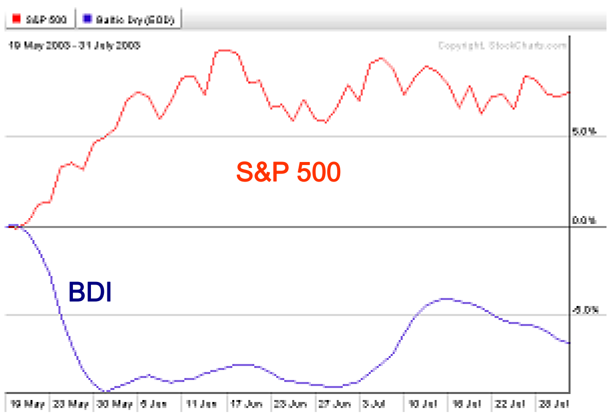
When we look at the accompanying GDP table, it is not surprising that emerging markets bottomed in November of 2008 while the S&P 500 did not find its footing until March of 2009. Investors tend to follow growth. Many leaders of the current bull market found a bottom well before the S&P 500 (a laggard).



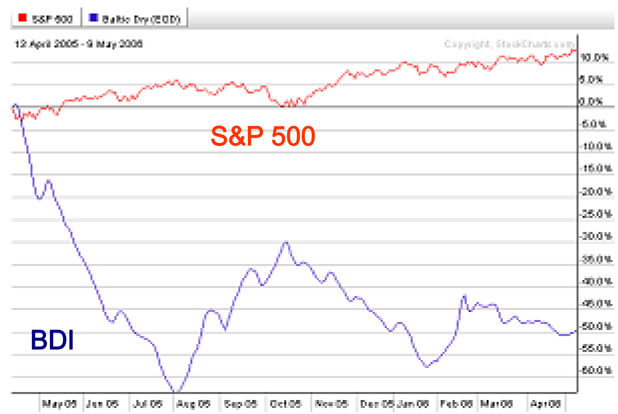
Stocks Can Go Up When The Baltic Dry Index Is Falling

The Baltic Dry Index (shipping) is often used as a way to monitor economic health. The rationale is that when shipping is in demand then goods must be moving though the economy. All things being equal, it is better for stocks when the Baltic Dry Index is healthy. However as the graphs below show, the S&P 500 and the Baltic Dry Index do not always move in the same direction.

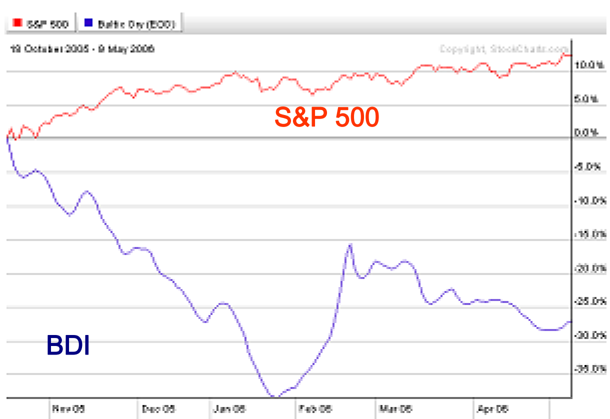
May 19, 2003 to July 31, 2003



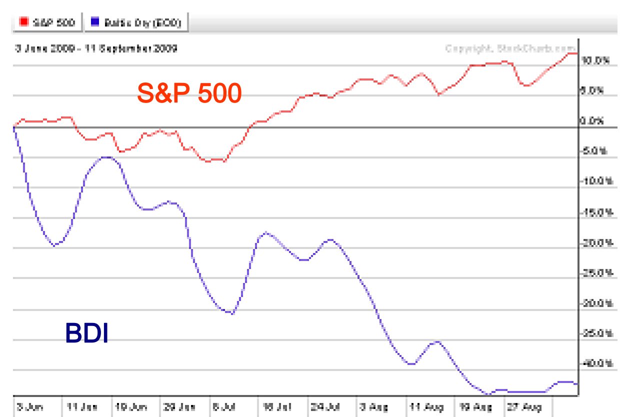
April 13, 2005 to May 9, 2006



October 10, 2005 to May 9, 2006



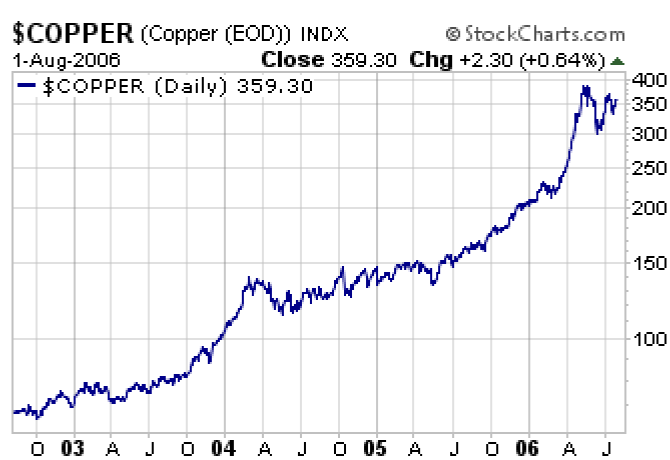
June 3, 2009 to September 11, 2009



Gains Can Be Bigger Than Expected In New Bull

To offset the "too far, too fast" argument for markets having limited upside from present levels, we should remember copper went up almost five-fold in the last period of low inflation, easy Fed policy, and improving economic conditions. Dow rallies off bear market lows have also been hard to comprehend in the past – 94% in 1932, 121% in 1933, 60% in 1938, and 76% in 1974.

Copper went up 492% during the last reflation (2002-2006)



The S&P 500 Can Make Money Between September 15th and October 31st

Sept. 15, 1996 - Oct. 31, 1996

Sept. 15, 1998 - Oct. 31, 1998

Sept. 15, 1999 - Oct. 31, 1999

Sept. 15, 2001 - Oct. 31, 2001

Sept. 15, 2003 - Oct. 31, 2003

Sept. 15, 2004 - Oct. 31, 2004

Sept. 15, 2006 - Oct. 31, 2006

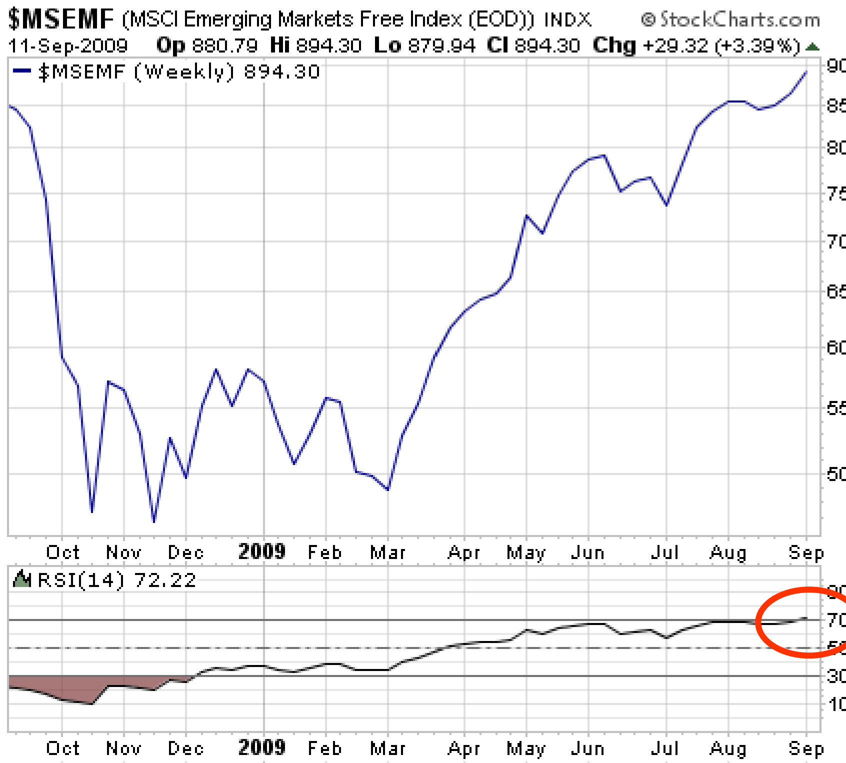
Sept. 15, 2007 - Oct. 31, 2007

Overbought Markets Can Remain Overbought For Long Periods Of Time In Strongly Trending Markets

The weekly chart of the MSCI Emerging Markets Index (Chart 19 right) shows an "overbought" RSI reading of 72 in September of 2009 (see red circle).

Chart 20 below shows the same index remaining "overbought" for nine months in 2003-2004 while posting impressive gains.

Chart 19: 2009 - Emerging Markets Are Overbought (see red circle)



Home Inventories Better, But Still High

At their peak, there were roughly 12 months of supply of homes on the market. The nationwide average in the 1990s was 6.6 months of supply. While still high, according to Standard & Poor's, there were 8.6 months of supply of existing homes at the end of July 2009. Housing is far from healthy, but we have seen some positive developments.

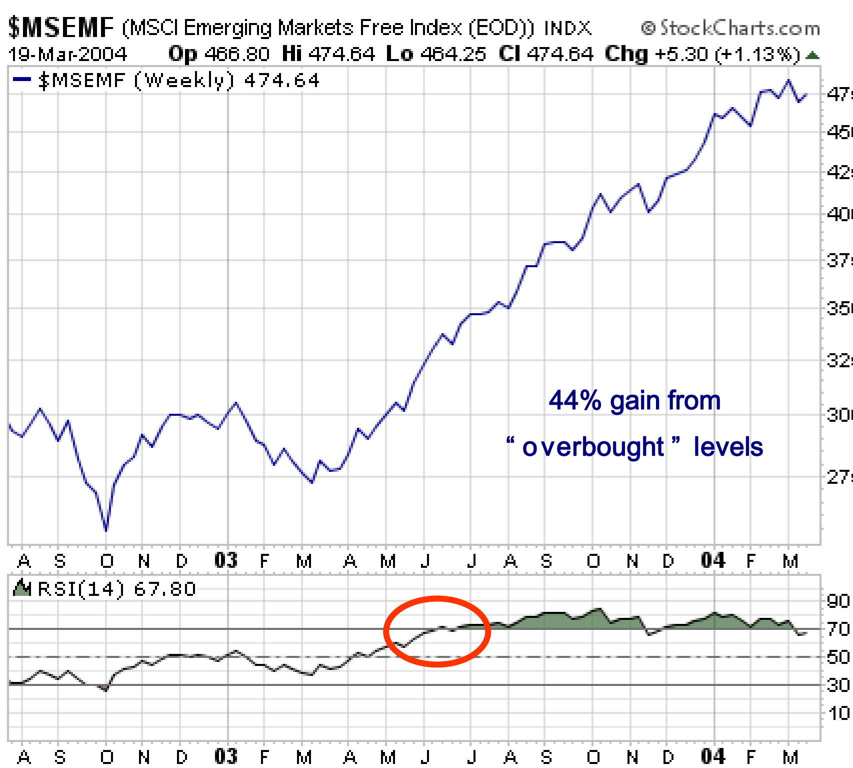
Asset Inflation vs. CPI Inflation

With all the money printing and government spending, it is possible we will experience a period of low CPI inflation while liquidity drives up asset prices. CPI inflation remained relatively tame in 1971 and 1972 before rising rapidly between 1973 and 1975. Since many businesses have excess capacity, rather than invest in plant and equipment, they may purchase assets. The Group of 20 nations has committed roughly $12 trillion in an effort to stimulate growth.

Debt Burdens Says Deflation Is Not An Option For Fed

The Congressional Budget Office (CBO) predicts that debt held by the public as a share of GDP, which was 40.8% in 2008, will rise to 67.8% in 2019. In a period of sustained deflation, debt burdens grow in real terms.

Chart 20: 2003 - Emerging Markets Remained Overbought For Nine Months While Gaining 44%



Big Picture Criteria Continues To Support Intermediate-To-Long-Term Gains

On pages 8-10 of the August issue of the Asset Class Outlook, we presented a big picture context that can be used to help make better allocation decisions. An updated version of the big picture criteria is shown to the right in Table 9. The comments below from August still apply to Table 9:

> *Table 9 can help us control our fear and avoid making emotional decisions during inevitable corrections, which can be significant in any bull market. Study results of market behavior after the slope of the S&P 500's 200-day moving average turns up support erring on the side of holding as long as bull market conditions exist (as they do today). If conditions change, we will adjust accordingly. Until they do, we will remain in the mindset of long-term investing. The evidence continues to support higher stock prices in the months ahead. There is no compelling reason to believe recent corrections have been anything more than that - normal corrections within a bull market.*

Weak Economy Good For Asset Prices?

In an environment of unprecedented market intervention and coordinated global stimulus, we may experience rising stock and commodity prices within the context of a weak economy. A "G-20 put" may exist in the form of more market intervention and spending in the event of future economic weakness. If asset prices fall, it makes the deflationary and balance sheet fight much harder. If the S&P 500 drops and/or the unemployment rate remains high, calls for additional stimulus packages will begin. The "wealth effect" is an important factor in the quest to repair global balance sheets at the household and "too big to fail" levels of the economy.

Cash Levels Could Push Prices Higher

At the peak of the bull market in 2007, investors had $2.91 trillion in money market funds. At $3.58 trillion in early September 2009, money market balances are still 23% higher than October 2007 levels. According to data compiled by the Investment Company Institute and Bloomberg, even after reducing money-market accounts by 11 percent this year, investors have cash equal to 73 percent of Standard & Poor's 500 Index companies' net assets. Underinvested professional money managers may also provide an added boost to asset prices, especially as the calendar year-end approaches.

Table 9 - Big Picture Still Positive

As of 9/24/2009	Above 200-Day	50 Above 200-Day	Slope of 200-Day
S&P 500 Index			
Consumer Discretionary			
Semiconductor Stocks			
Steel - Stocks			
Base Metals Stocks			
Agricultural Stocks			
Broker-Dealer Stocks			
Timber - Stocks			
Coal Stocks			
Gold Mining Stocks			
Small Cap Value Stks			
Small Cap - Inter'l - Stocks			
Small Cap - China			
Emerging Market Stocks			
Brazil - Stocks			
India - Stocks			
China 25 - Stocks			
Australia - Stocks			
Spain - Stocks			
Sweden - Stocks			
Copper			
Gasoline			
Crude Oil			
Gold			
Silver			
Canadian Dollar			
Australian Dollar			
Foreign Bonds			
U.S. Credit / Bonds			
Emerg Mkt Bonds			
U.S. Senior Bonds			

Debt Everywhere

The IMF expects G-7 countries to show a combined fiscal deficit equivalent to 10.36% of GDP, which is more than twice the level following the 1990-1991 recessions. If the federal government were to bring Fannie and Freddie on the national ledger, it would increase the national debt held by the public from $7.3 trillion to $12.7 trillion. The August federal budget report showed the deficit stands at 9.4% of GDP.

Chart 21: Current Bull Phase I - Gold Miners and Emerging Markets Lead, Financials Lag

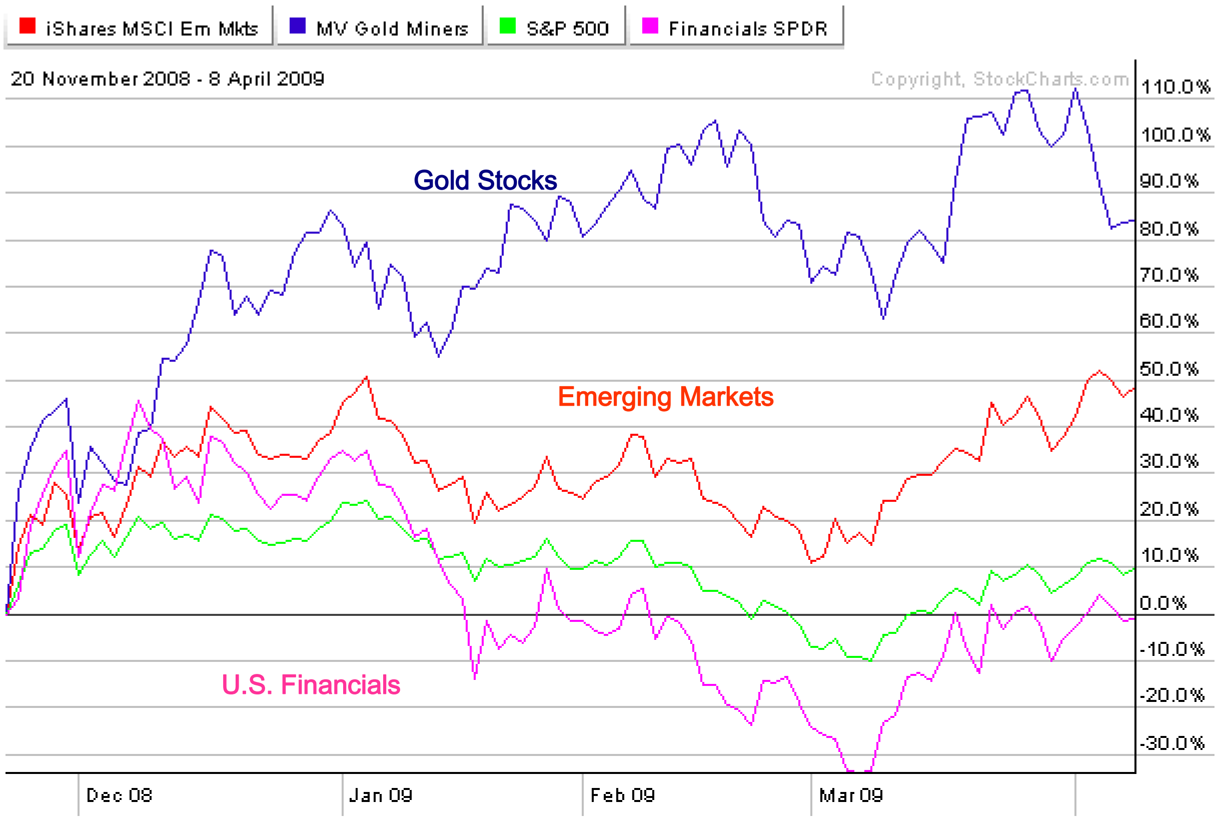


Chart 22: Current Bull Phase II - Financials Lead, Gold Miners and Emerging Markets Lag

Charts 21-23 show shifts in leadership that have occurred in the current bull market. It is possible that the early leaders (Chart 21) will again provide leadership if financial markets are able to take another leg up in the 4th quarter of 2009 (see Chart 23 on next page).

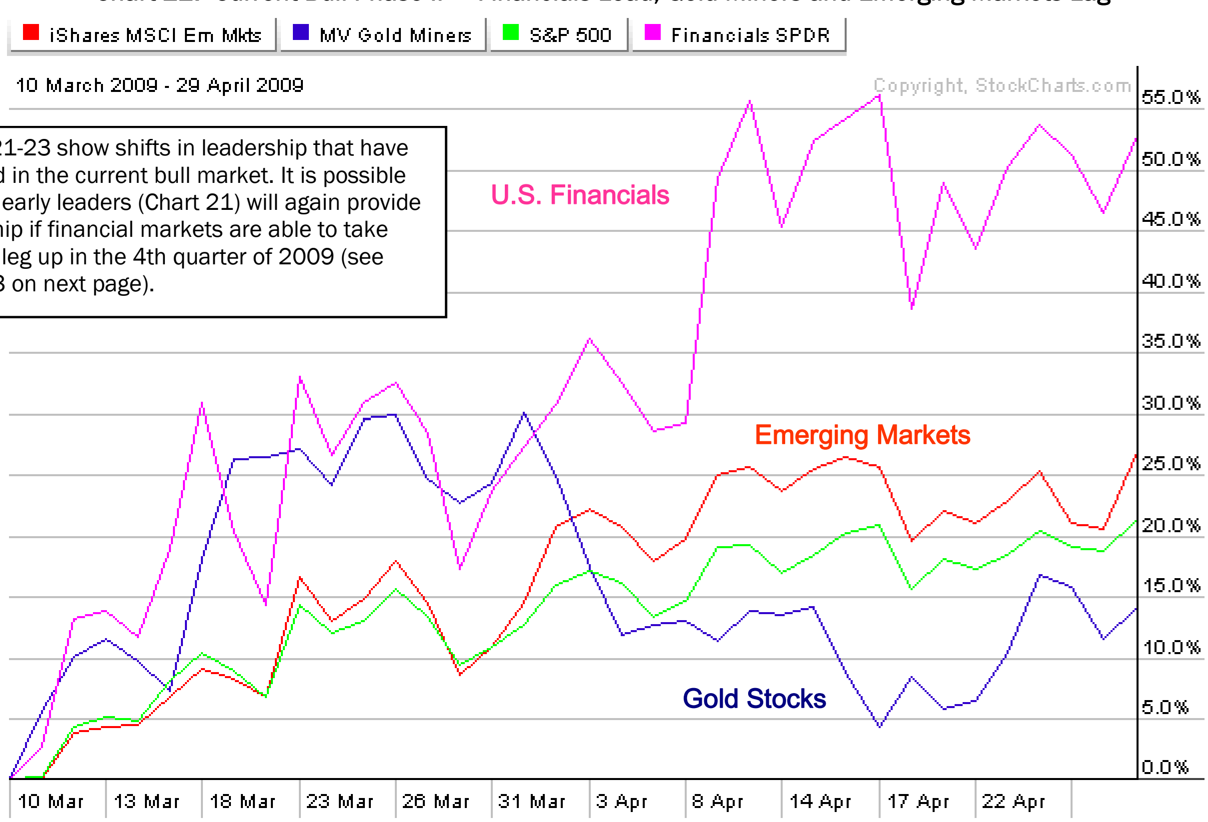
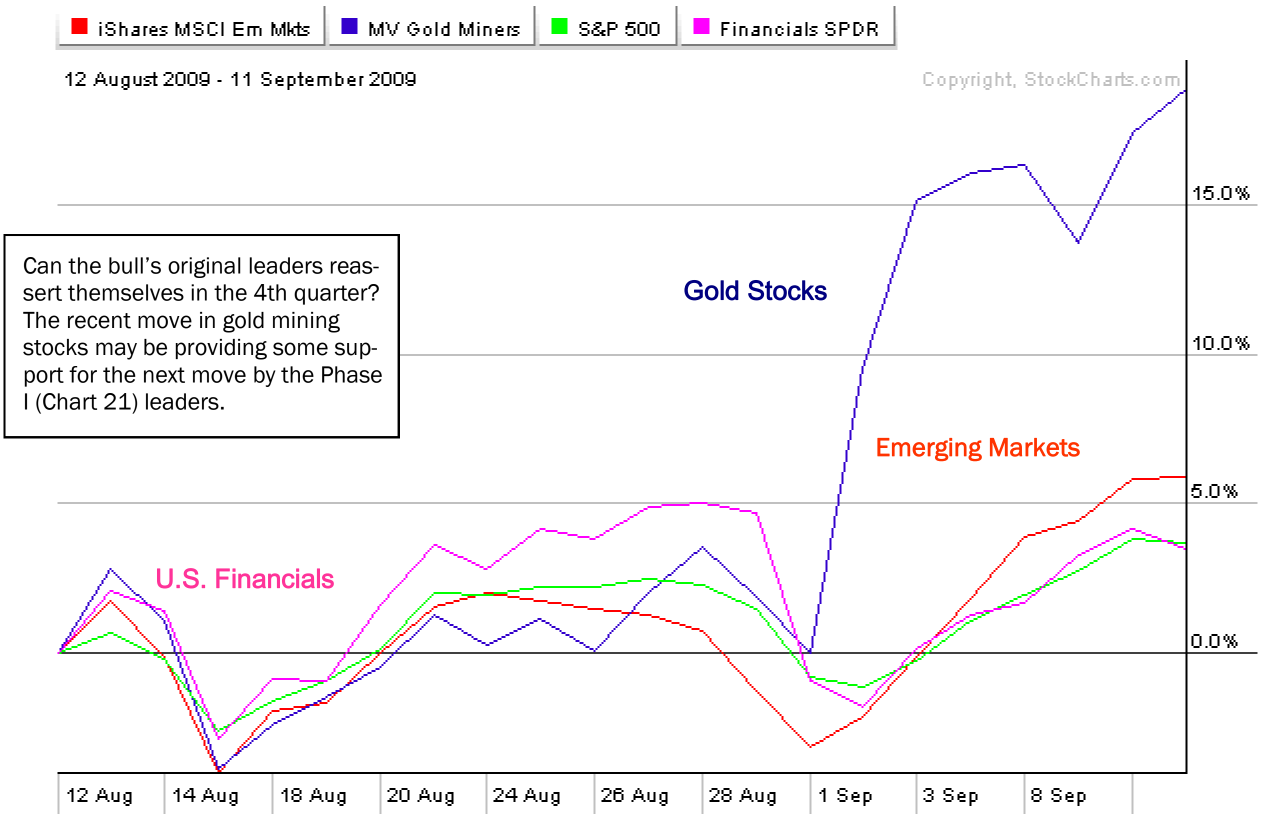


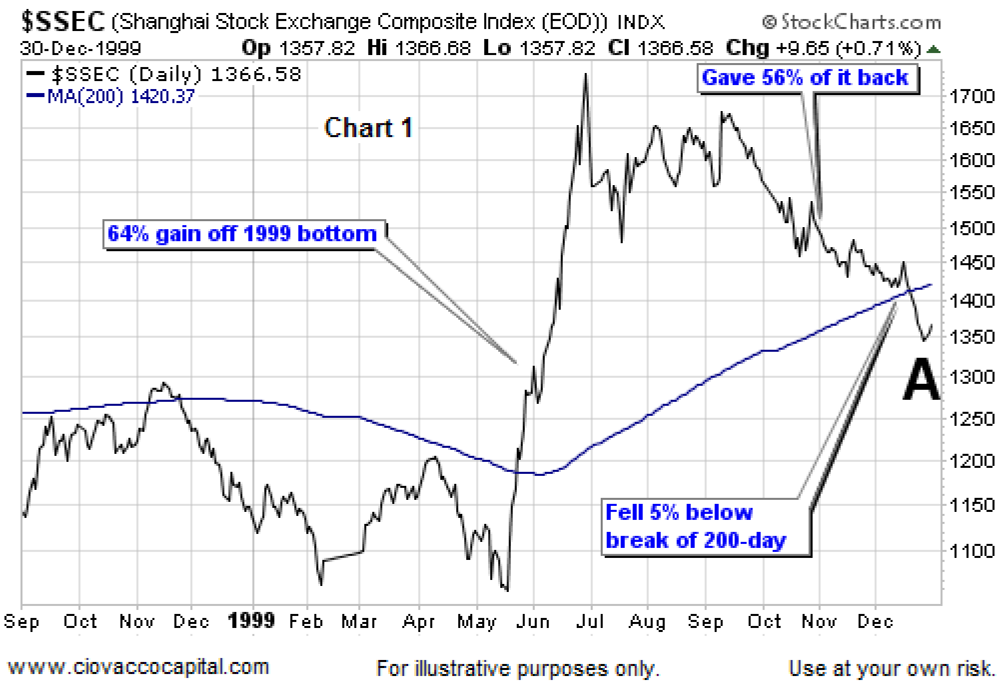
Chart 23: Current Bull Phase III? - Gold Miners and Emerging Markets Lead, Financials Lag



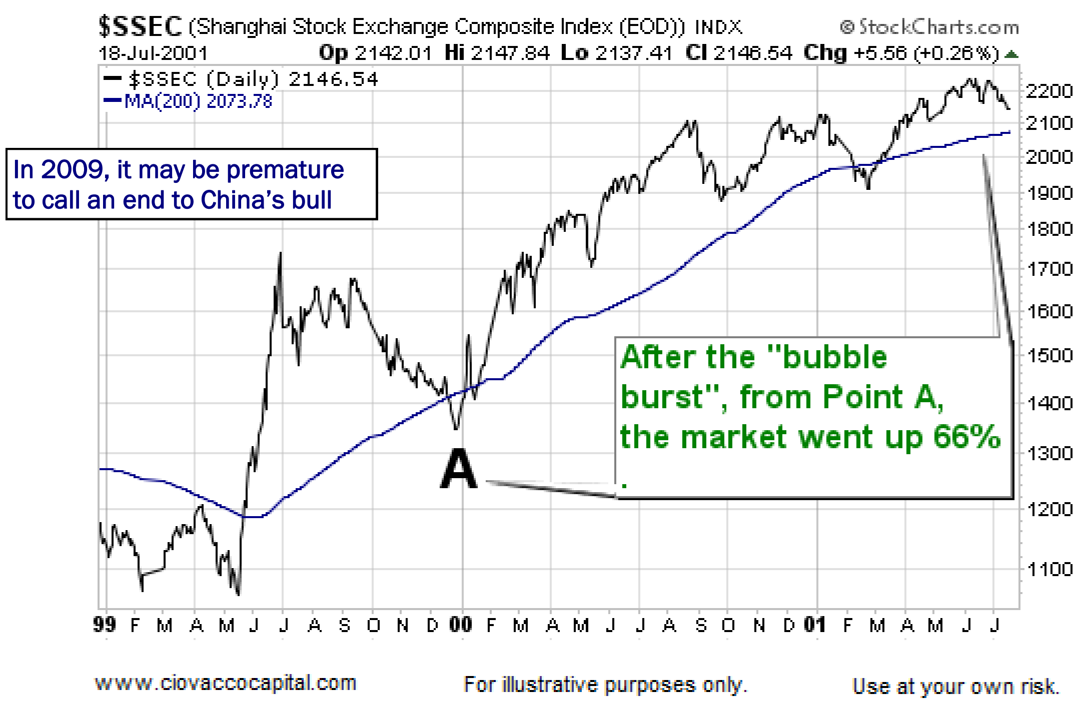
So Goes China, So Goes The Rest Of The World ***Does Not Always Hold Water***

July 2003 - July 2005

China / Shanghai Index (1998-1999): China stocks had a similar, almost vertical, move off the May 1999 lows. Many said the bubble had burst and a new bear market had started as the index moved back to Point A. Chart 2 shows the market's move after Point A.



In late 1999, Point A was not the beginning of the end for Chinese stocks. After overshooting the 200-day moving average, the Shanghai Index gathered itself to move 66% higher over the next 18 months.



Favored Asset Classes Next 6 to 12 Months

The asset classes and sectors shown to the right were selected after comparing over 450 indexes, ETFs, stocks, and asset classes head-to-head using CCM's proprietary Asset Class Ranking System. The CCM Rankings were combined with post-recession cycle results for 6, 12, 18, and 24 month historical periods. The relative performance after the 200-day's turn in a major market average was also included in the selection process. Correlations and diversification considerations were also factored in when adding commodities and currencies. Listed in order of relative attractiveness.

Emerging Markets
Small Cap Stocks - Global
Energy / Materials / Commodity - Stocks
Developed Markets - Stocks
Technology Stocks
Commodity - Physical
Financials
Income - Specific Segments
Consumer Discretionary - Stocks
Currency - Foreign

CCM Attractiveness Rankings

The asset classes, markets, and sectors below are shown in order of attractiveness based on the CCM Asset Class Rankings. Historical cycle information was combined with CCM's proprietary models to compile these rankings.

Emerging Markets - Stocks
Foreign - Turkey
Foreign - Brazil
Foreign - India
Foreign - South Africa
Foreign - China 25
Foreign - Latin America
Foreign - South Korea
Foreign - Mexico
Foreign - Hong Kong
Foreign - Malaysia
Foreign - Russia
Foreign - Shanghai Index

Developed Markets - Stocks
Foreign - Sweden
Foreign - Spain
Foreign - Australia
Foreign - Singapore

Small Cap Stocks - Global
Small Cap - China
Small Cap - Emerging Markets
Small Cap - Value
Small Cap - Global
Small Cap - Blend

Energy / Materials / Commod. - Stocks
Base Metals - Stocks
Coal Stocks
Global Wind Energy - Stocks
Steel Stocks
Pipeline - Stocks
Basic Materials - Stocks
Global Water - Stocks
Gold Mining Stocks
Pipeline - Stocks
Global Timber - Stocks
Agricultural - Stocks

CCM Attractiveness Rankings—Continued

The asset classes, markets, and sectors below are shown in order of attractiveness based on the CCM Asset Class Rankings. Historical cycle information was combined with CCM's proprietary models to compile these rankings.

Technology Stocks
Tech - N Amer Networking
Tech - Networking
Tech - Semiconductor
Tech - Semiconductor N. Amer.

Financials
Financials - Capital Markets
Financials - Broker/Dealer
Financials - Insurance
Financials - Global
Financials - Preferred
Financials - Index U.S.

Commodity - Physical
Commodity - Copper
Commodity - Crude Oil
Commodity - Silver
Commodity - Base Metals
Commodity - Nat Gas
Commodity - Gold
Commodity - Agriculture

Income - Specific Segments
Income - Foreign
Income - Convertibles
Income - Senior Debt
Income - Emerging Markets
Income - Credit
Income - Floating Rate

Monitoring The Health Of The Bull - Red Flags

Trends are always subject to change, but there is no need to guess or forecast concerning a possible reversal – it is better to wait for evidence of a change or impending change. We assume we will get more of the same until we see significant evidence to the contrary, which means more than a normal countertrend rally. Some red flags to watch for:

Slope of moving averages: Negative slopes on 50-day, 89-day, and 22-week moving averages.

Moving Average Crossovers: Negative crosses of 20 and 50-days.

Poor Market Breadth: If the number of stocks participating in the gains deteriorates, especially for a prolonged period, it could signal the end of a bull run.

A Spike In Interest Rates: With large amounts of supply due to hit the Treasury market and foreigners keeping an eye on the dollar, higher interest rates are a distinct possibility.

Extreme Bullishness: Investor sentiment is a contrary indicator as investors tend to hope and fear at the wrong times.

Valuations: Rising normalized PE ratios may result if earnings fail to materialize over the coming months.

Trendline and Trend Channel Breaks: Used in concert with other methods, trendline and trend channels can help us discern between normal corrections and not-so-normal corrections.

Volatility Characteristics: Each investment, market, or asset class has a unique and ever-changing set of volatility characteristics. When markets step outside their recent norms, it is time to pay attention.

Other Voices

Even though the Fed is talking about and obviously doing internal planning for the exit strategy, nobody should think it is imminent.

ALAN BINDER
Princeton University Economist
Source: Wall Street Journal
August 24, 2009

There is no doubt that Chairman Bernanke is heavily influenced by these two mistakes of the Fed during the Depression [tightening monetary policy too soon after the 1929 crash and raising bank reserve requirements three times beginning in 1936] and is absolutely intent on not repeating them.

ALEX J. POLLOCK
American Enterprise Institute
Source: Wall Street Journal
August 24, 2009

Buyers are finding plenty to like: Rising stocks have outnumbered losers by more than 2 to 1 on the New York Stock Exchange in seven of the last eight sessions. That encourages bulls like Ned Davis Research, a well-known market research firm in Venice, Fla. that correctly called the rally earlier this year and has maintained the view that stocks are going higher. "So much money has been sitting on the sidelines and now is looking for a place to go" as confidence in a recovery rises, said Tim Hayes, the firm's chief investment strategist. Ned Davis believes this is a "cyclical" bull market within a longer-term, or "secular," bear market. But given the firm's forecast for the S&P 500 to peak sometime in 2010 in the range of 1,200 to 1,300, it makes no sense to sit out the cyclical rebound, Hayes said.

L.A. TIMES
September 16, 2009

There is growing disdain for currencies generally, and there is growing (approval) of gold as the most important 'currency' of all.

DENNIS GARTMAN
The Gartman Letter
Source: BusinessDay
September 4, 2009

U.S. stocks are in a bull market after rallying from a 12-year low on March 9 and have "a lot of room to run," investor Laszlo Birinyi said. The advance in U.S. equities shows that the longest recession since the 1930s is over, and investors who wait to buy stocks until the National Bureau of Economic Research declares the contraction finished will miss out on gains, Birinyi said. "I don't know how you could wish for a better set of circumstances," Birinyi, the founder of Westport, Connecticut- based research and money-management firm Birinyi Associates Inc., said in an interview with Bloomberg Television. "The economy is probably a little bit better than most people are giving credit."

BLOOMBERG
September 15, 2009

Stocks can easily go higher. If you print the money, they can go anywhere.

DR. MARC FABER
The Gloom, Boom, and Doom Report
Source: Bloomberg
September 23, 2009

About Ciovacco Capital Management

Ciovacco Capital Management, LLC (CCM) is an independent money management firm based in Atlanta, Georgia. CCM helps individual investors protect themselves from inflation while minimizing the probability of investment losses via research, disciplined risk management techniques, and globally diversified investment portfolios. Since we are a fee-based financial advisor, our only objective is to help you protect and grow your assets. Our long-term, theme-oriented approach allows for portfolio rebalancing from time to time to adjust to new opportunities or changing market conditions. CCM's risk management and stop-loss disciplines help preserve principal in even the most challenging investment environments. We explore opportunities in all asset classes to help protect and grow your hard earned assets. Our clients may hold positions in timber, foreign commercial real estate, gold, silver, base commodities, foreign stocks, foreign bonds, and foreign currencies to complement their positions in U.S. stocks and U.S. bonds. When conditions warrant, we also use hedging strategies as "insurance policies" to protect against downside risk. This approach (wide diversification and hedging) has been used successfully for many years by the best pension and endowment managers to reduce risk and improve returns. Clients who work with Ciovacco Capital Management gain access to a diversification strategy that is seldom seen at the individual investor level.

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Visit www.ciovaccocapital.com For Short Takes — Updated Regularly

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If you have questions or would like to schedule a time to talk, please email

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or call Chris Ciovacco at

(678) 362-7698

If you get voice mail, please leave a detailed message including your name and phone number.

CIOVACCO
CAPITAL MANAGEMENT

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