



CACH Capital Outlook Special Edition

As opposed to providing you with an end-of-quarter CACH Capital Outlook, which is our traditional method of reporting our market perspective, we thought that it might be more beneficial, at this time, to provide our perspective in a brief and more concise format, and in a format that better lends itself to more frequent updates.

Our working premise is as follows:

- For the past five to six months, the domestic equity markets have been building a base that will ultimately mark the lows of this historic bear market. This is reflected in a highly volatile trading range in the S&P 500 Index, with the 800 level as its epicenter.
- We believe that we are in the late stages of this bottoming process, and that equity markets, in general, are likely to be nicely higher by the end of the year.
- Of the developed equity markets, we believe that the domestic equity markets are the most compelling, as we believe that the U.S. economy will be the first of the developed economies to emerge from this deep global recession.
- In the emerging markets, we believe that the equity markets in Brazil and China offer the best risk-adjusted return opportunities.
- In the domestic economy, we are seeing early, albeit modest, signs of fundamental improvement in the non-sovereign bond and residential real estate markets. When combined with a slowing rate of deterioration in the economy, these improving fundamentals should create an environment that is increasingly favorable to the equity markets. Of note, equity markets have historically bottomed 6-9 months before the lows in the economic cycle.
- From a technical perspective, global equity markets are VERY short-term over-valued, which suggests that they are susceptible to significant profit-taking declines on any fundamental disappointments. However, for so long as the S&P 500 remains above the 750 support level, we believe that a strong case can be made for a sustainable market bottom.
- Given the fact that 80% of bear market bottoms have historically required a successful retest of the previous lows (either double or triple bottoms), we suspect that any sustained breach below the 750 level on the S&P 500 would likely presage a retest of the 666 level. At present, we consider this to be a minority possibility.
- Wall Street generally does not trust either the recent rally or the bottoming pattern in equities, and analysts have remained exceptionally bearish. Indeed, short-interest levels (bets against the equity markets) have continued to climb as the equity markets have rallied higher. This is very bullish (positive) from a contrarian perspective, as investors will ultimately need to buy stocks to cover these shorts if the rally continues.
- There are several pending/potential legislative and/or regulatory changes that should be beneficial for the economy and equity markets. These include a relaxation of the mark-to-market accounting rules for banks and the proposed restoration of the uptick rule, which would make it more difficult for momentum traders to drive down the price of a stock.
- There will be several fundamental tests that will likely drive the equity markets over the coming days and weeks. Key among them will be 1) this Friday's unemployment statistics, 2) whether or not earnings generally continue to exceed the much-lowered expectations, and 3) the general results of the "stress test" on the banks.
- The equity markets have been very impressive in regard to their improving ability to ignore bearish news. This is historically a very optimistic sign.
- To a large extent, in regard to the equity markets, we are just going to need to "feel our way along" the bottom, and adjust our perspective with each significant data point. Even so, our twelve-month outlook for equities is the most bullish that it has been in years. However, it is simply too early to rule out a retest of the market's previous lows.

If you have any questions about this perspective, please do not hesitate to contact your personal investment advisor.

