

“Our Clients’ Past Successes are Not Necessarily Indicative of Future Successes.”

Stamper Capital & Investments, Inc.

“Focusing on Upside Potential with Downside Protection Since 1995.”

October 22, 2009 Market Update Commentary

We have noticed that the equity markets have pretty well satisfied our forecasted counter-trend rebound that we made back in our **January 2009 Market Comment** (<http://www.risk-adjusted.com/AnnualForecasts.html>). Because we believe this will likely be a turn of significance, we wanted to highlight it in this update.

In January 2009, we said:

Last year, we looked at the **drops in equities from the 2000 top to the 2002 bottoms** focusing on the percent rise of retracements of intermediate drops during the overall downtrends. Here is what we found:

	<u>First</u> <u>Retracement</u>	<u>Second</u> <u>Retracement</u>	<u>Third</u> <u>Retracement</u>	<u>Total</u> <u>Drop</u>
Dow Jones Industrial	76%	76%	50%	38%
S&P 500	50%	62%	38%	49%
NASDAQ	50%	24%	62%	78%

Thus, even though there were huge retracements of large drops, at the end of the period (in late 2002), the DOW bottomed down 38%, the S&P bottomed down 49% and the NASDAQ bottomed down a whopping 78%. In that light we still expect large counter-trend retracement rallies similar to those experienced during the drop from the 2000 top. However, given the poorer fundamentals at this time than even at the 2000 top, we are forecasting smaller retracements - probably more like 24% as opposed to 50% or 76%. Still, it will be tough to not think the downturn is over when it is simply a large counter-trend rally.

Right now (August 24, 2009) the retracement on the Dow Jones Industrial Average of its drop from the 2007 top to the March 2009 bottom is somewhat shy of 50%.

Note, we also predicted the resumption of that original downtrend taking out the 2008 bottoms (which happened when it went down to the March 2009 lows), then "a very volatile, choppy rally over five months or so" (**which has now happened**):

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Over the shorter run, for the year, 2009, we believe the rebound in stocks from the late 2008 lows has just ended and that we will very quickly head down to and take out those levels on the downside. It will likely be a very steep drop over a short period of time & it will get a huge amount of media attention. Then, we expect a very volatile, choppy rally over five or so months. The key will be that while the rally is large, it will not have near the breadth as the decline from late 2007 to late 2008 - thus, not as many assets will rally as had dropped & it will only be a partial retracement as we alluded to above.

To us, that forecast has now been fulfilled. So, we believe that is essentially where we are right now (within a couple of weeks and a percent or so) - at the end of the counter-trend rebound top.

Continuing with our original January 2009 Market Forecast, we said:

If that is what happens and that is what we expect, then, we forecast a down trend from that intermediate rebound high, similar to the 2008 drop but not quite as steep [we are reconsidering the steepness; however, the steepness is not as important as the size of the drop which we think will be larger] will resume for the rest of 2009 and likely another year or two thereafter. We are expecting that we won't know where the bottom is going to be until we are actually there, but we should know [when we get there].

So, we think we are at that rebound top level in risky assets as we forecasted (in **January 2009 Market Comment**) (<http://www.risk-adjusted.com/AnnualForecasts.html>) and that a substantial drop in riskier assets is about to begin (or resume from the original 2007 top).

Please see our original **January 2009 Market Comment** (<http://www.risk-adjusted.com/AnnualForecasts.html>) for more information.

As previously, for specific investments, we will continue to focus on our upside potential and downside protection analysis, that has worked well for us since 1990 and we believe we will continue to post top risk-adjusted returns in our specific category and against most other asset categories. Thus, we believe that right now, for all but the highest quality assets, the upside potential is very low and the downside possibility is very high.

In conclusion, we believe the prices of riskier assets, stocks, low quality bonds, and real estate are at a peak now and will resume their down trends that began from earlier market tops. Please see our **weblogs and annual forecasts** (at: <http://www.risk-adjusted.com/AnalysisMarketOpinion.html>) for more detailed information and to see how well we have been forecasting over the years - our previous forecasts still stand.

Thank you,
Stamper Capital & Investments, Inc.

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As previously, for us "safety" is the watchword for this decade.

(Posted October 22, 2009)

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Stamper Capital & Investments, Inc. has been the sub-adviser to this Fund since October 1995 and B. Clark Stamper, our President, has been its Portfolio Manager since June 1990.

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