The Wildebeests are Running Again . . . When there is panic in the herd there is money to be made . . . Be a Lion! - It's time to feast on a Wildebeest!

"Most people get interested in stocks when everyone else is. The time to get interested is when no one else is . . ." – Warren Buffett

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Caution: It's a risky world we live in. My opinions are based on information believed to be reliable but hey, I could be wrong. When investing, try to use good judgment and don't hesitate to seek professional assistance. Remember to set limits and have a plan. . . Good Luck!

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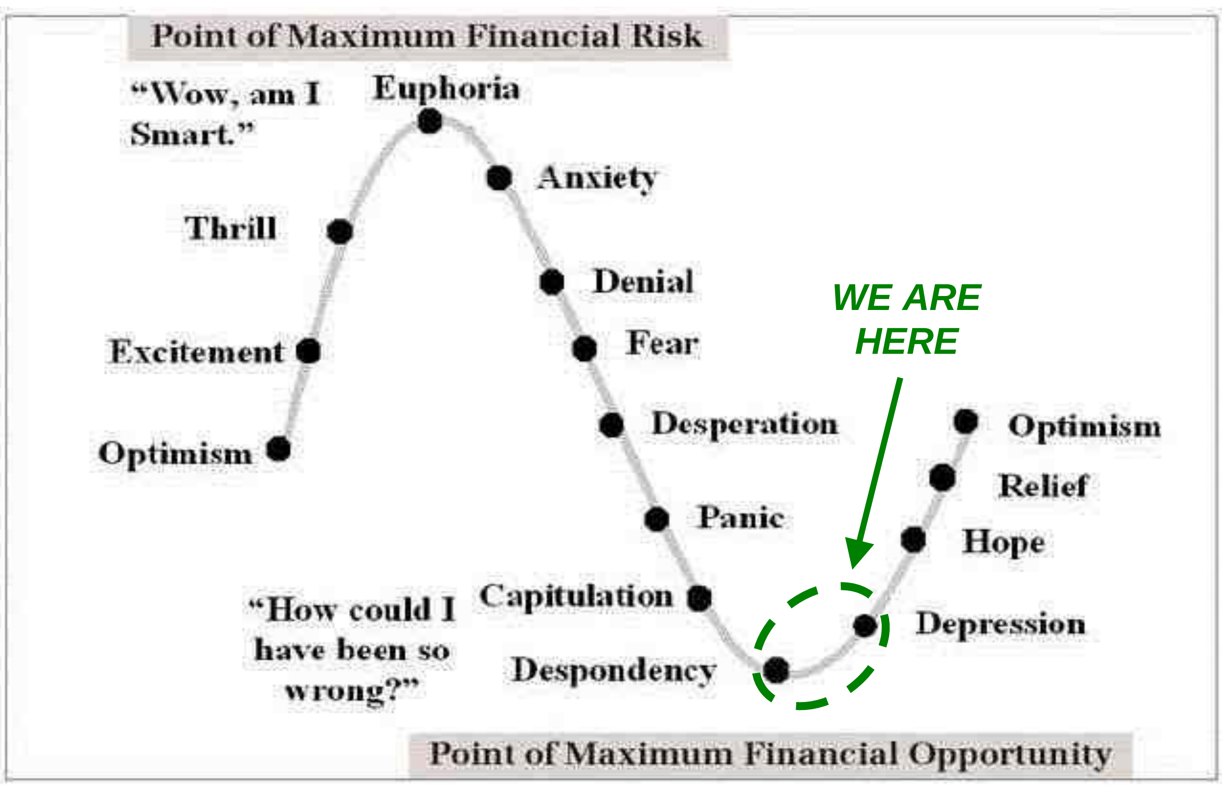
On July 2, 2010 we issued a report entitled "The Wildebeests are Running Again". This report will refresh much of the data presented last year.

The report last year proved to be timely as it was sent on the day that marked the low closing price for the S&P 500 completing a 16% correction that started in late April. We are presently down 6.75% from the April 29, 2011 high. Should last year's pattern repeat, we may reach the bottom of this current correction over the next three weeks as the cycle of monthly and quarterly economic and earnings news will command the attention of the business audience.

This chart has been used by many and as well by me in the past – it remains a great depiction of the cycle of sentiment in the markets. **It would seem we are either at or near the Point of Maximum Financial Opportunity**.



Executive Summary

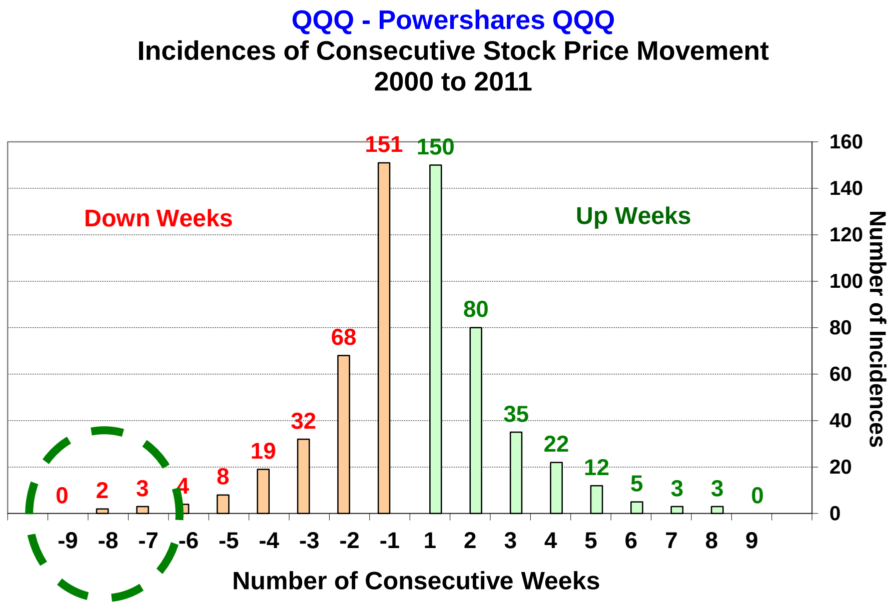
We have a confluence of indicators in support of an approaching market bottom and prospects for a rally.

- An extended number of consecutive down weeks in the stock market.
- Oversold market conditions
- There has not been a sustained decline in the market when there is strong earnings growth such as seen in the market up to now and expected for Q2. Earnings for the S&P 500 are projected to be up 23% over 2010 on a trailing 12 month ("LTM") basis. The median LTM earnings growth since 1980 has been 8.6%.
- The earnings yield has not been as strong as now since September 1990 – a bear market bottom. The spread between the earnings yield and the 10 year Treasury rate is the widest since 1979 when the S&P 500 gained 12.3% for the year. Spikes in the spread such as now have been coincident with market bottoms.
- The combination of low Treasury rates and a high earnings yield results in a near record low undervaluation. We haven't seen this low a valuation except at December 2008 and March 2009 – the panic lows of the last bear market and last year at the peak of concerns over risk of a "double dip" recession.
- We have not had a recession or a bear market when the yield curve is as steep as now.

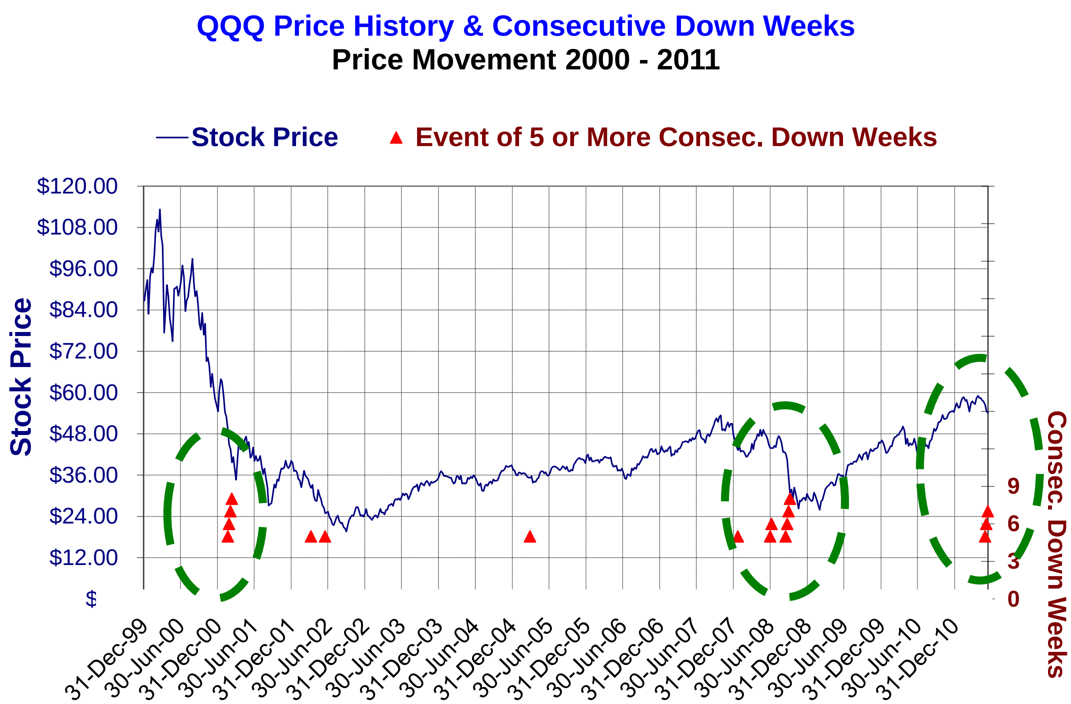
As was the case this time last year, the recent sell off seems to be an overreaction. The next news wave will be earnings related. We can also expect more deal news. It was recently reported by MarketWatch there is over $1.84 trillion of cash, a record high level, at non-financial U.S. companies available for M&A and stock buybacks. This is 27% more than in early 2007 before the recession. It is normal to expect buybacks to pick up following earnings reports – like those coming up next month.

March 2009, with similar conditions as now, marked the start of a greater than 90% move from that low point to the April 2010 high close for the NASDAQ, where all of our stocks are listed. July 2010, a time when there had also been persistent selling pressure, marked the start of a similar move that led to gains in the NASDAQ of 12.3% in Q3 of 2010, 27% by year end 2010 and 33% by the April 2011 high.

There have only been 3 episodes of 7 consecutive down weeks in the history of the "QQQ's" – the ETF designed to mimic the NASDAQ 100 – and one of the most actively traded securities in the market. Two of those episodes went on to decline one more week. There has not been a period of 9 consecutive down weeks.



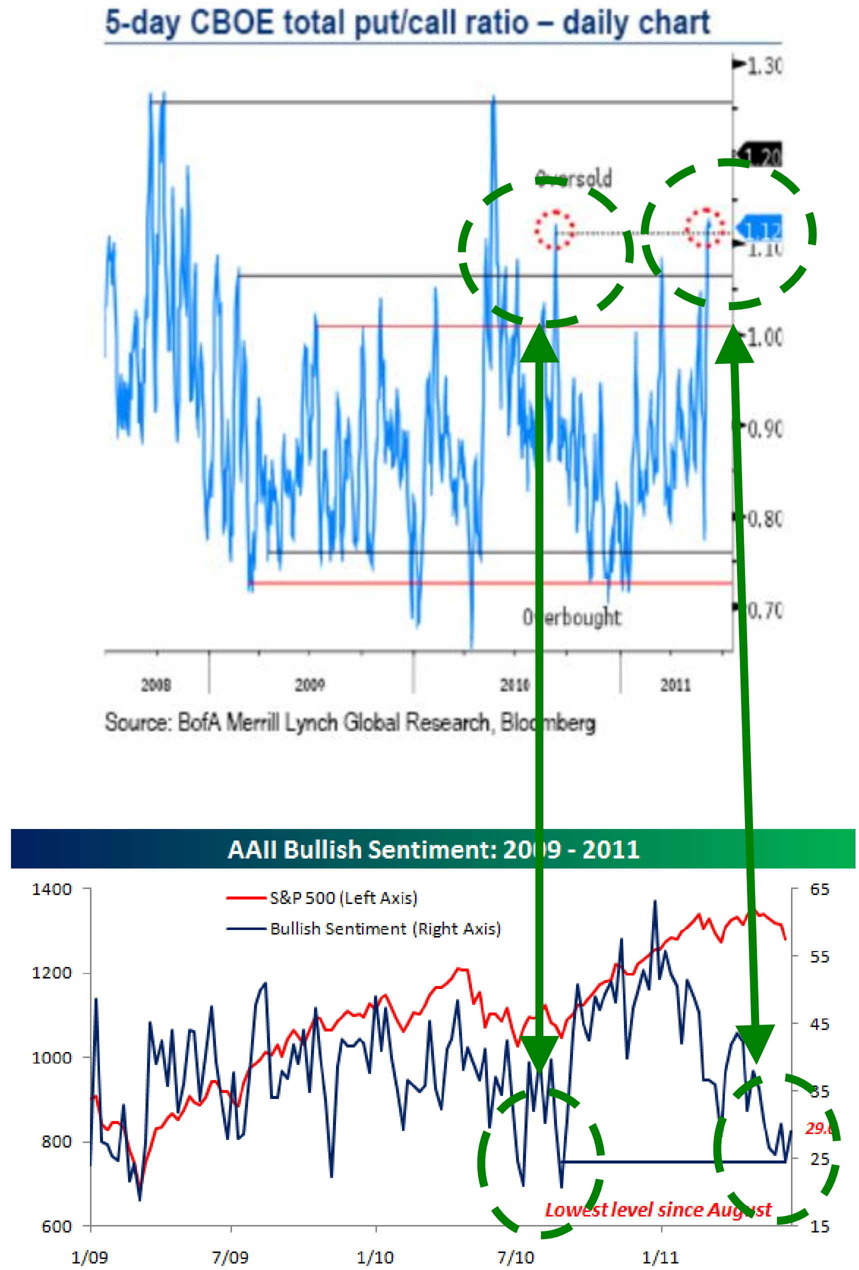
Buying stocks following a spike in consecutive down weeks has been profitable in the past – such as in 2008 – however there was more downside following the consecutive weekly declines in 2000. **There are materially better economic conditions today than in 2000 and 2008 suggesting the recent persistent sell off is emotionally driven**.



The market is exhibiting **oversold conditions**.

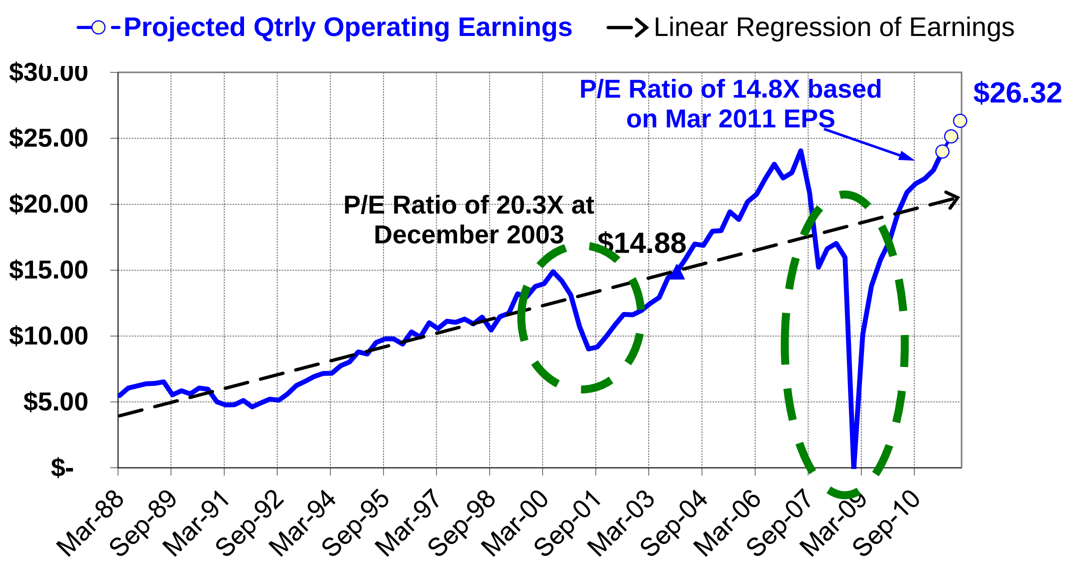
The put/call ratio is elevated above oversold thresholds. This chart from Merrill Lynch shows the level of put contracts relative to calls is the highest it's been since last year's period of market correction.

Investor sentiment is testing low levels seen at the bottom of the correction in 2010 as seen in this chart from **Bespoke Investment Group**



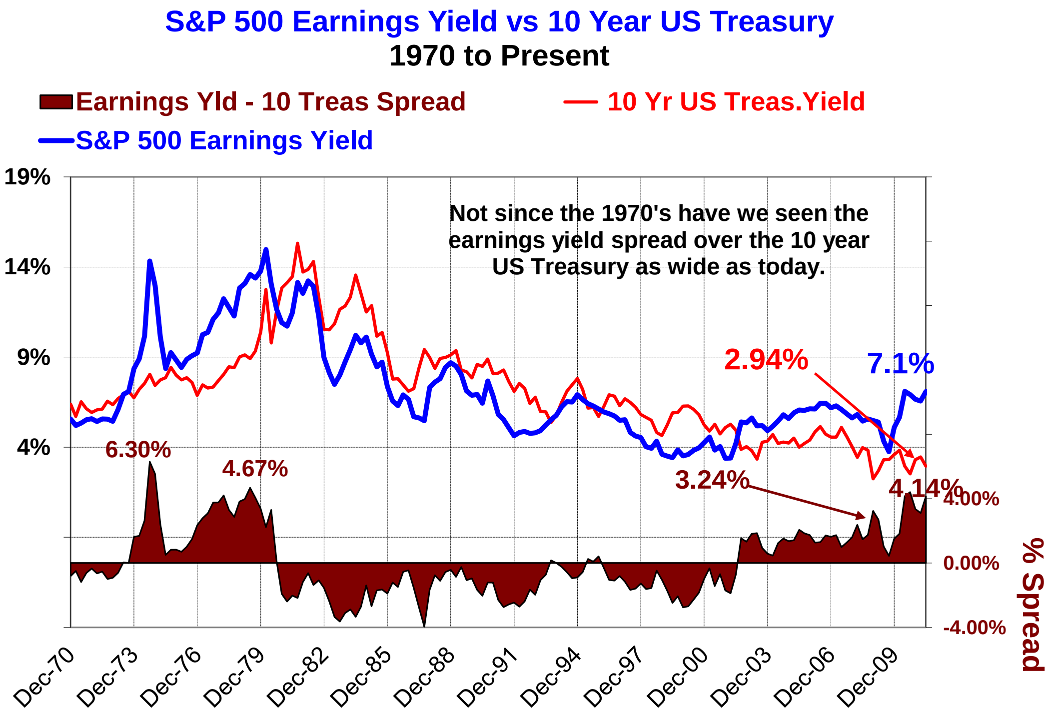
There has not been a sustained decline in the market when there is earnings growth such as seen in the market up to now and expected for Q2 and the remainder of 2011. The prior times we saw 7-8 week consecutive market declines were 2000 and 2008 (green dotted line circles) when earnings were dropping – not rising like today.

S&P 500 Unweighted Quarterly Operating Earnings Per Share 1988 to Present and Projected to Dec. 2011

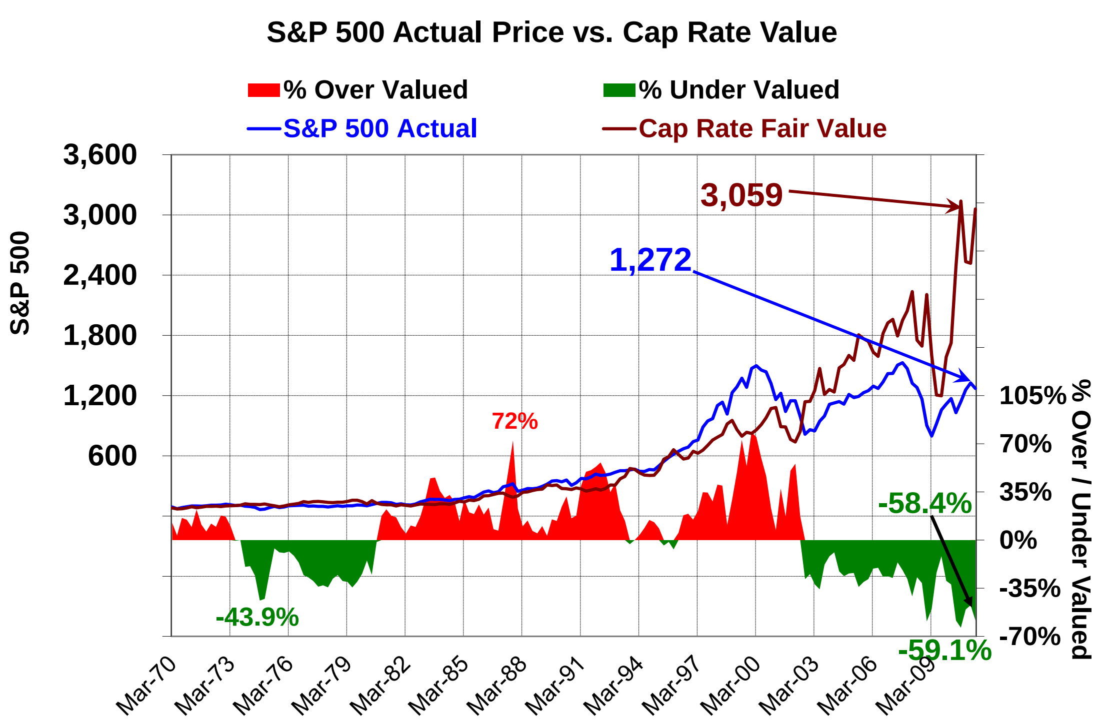


Recessions and bear markets don't happen until corporate profits roll over . . . that hasn't happened and is unlikely to happen soon.

The earnings yield has not been as strong as now since September 1990 – a bear market bottom. The spread between the earnings yield (the reciprocal of the P/E ratio, i.e. earnings divided by price) and the 10 year Treasury rate is the widest since 1979 when the S&P 500 gained 12.3% for the year. **Spikes in the spread have been coincident with market bottoms**.

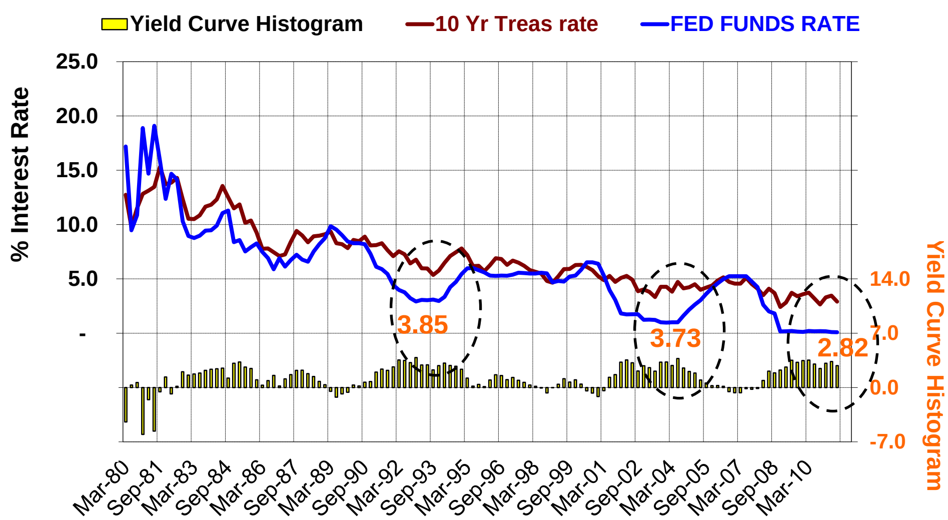


It's a math thing . . . The combination of low Treasury rates and a high earnings yield results in undervaluation of the S&P 500 that equals the undervaluation we saw last year at the bottom of the "double dip" correction that ended on July 2, 2010. This market behavior mimics that observed at the panic lows of the last bear market in December 2008 and March 2009 as well as in last year's Q2 correction.



We have not had a recession or a bear market when the yield curve is as steep as it is now.

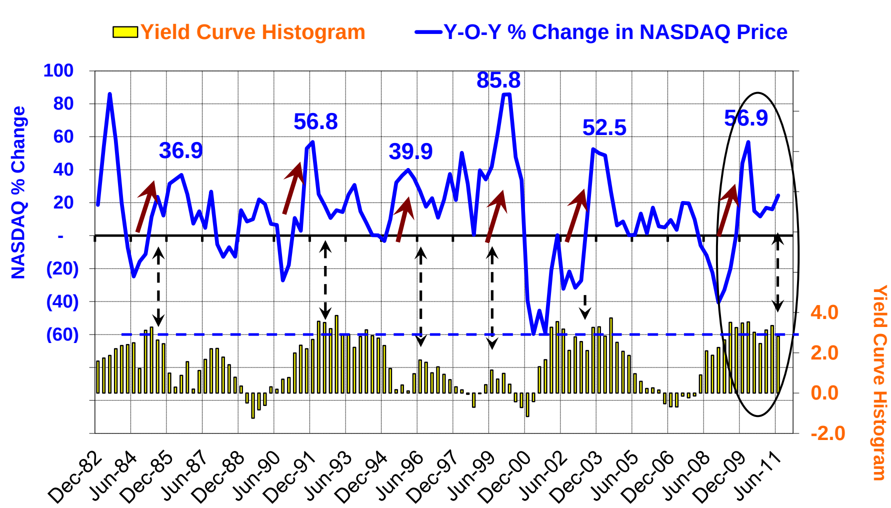
The Yield Curve
10 YEAR U.S. TREAS NOTE vs. FED FUNDS RATE
1980 to Present



Source: Federal Reserve

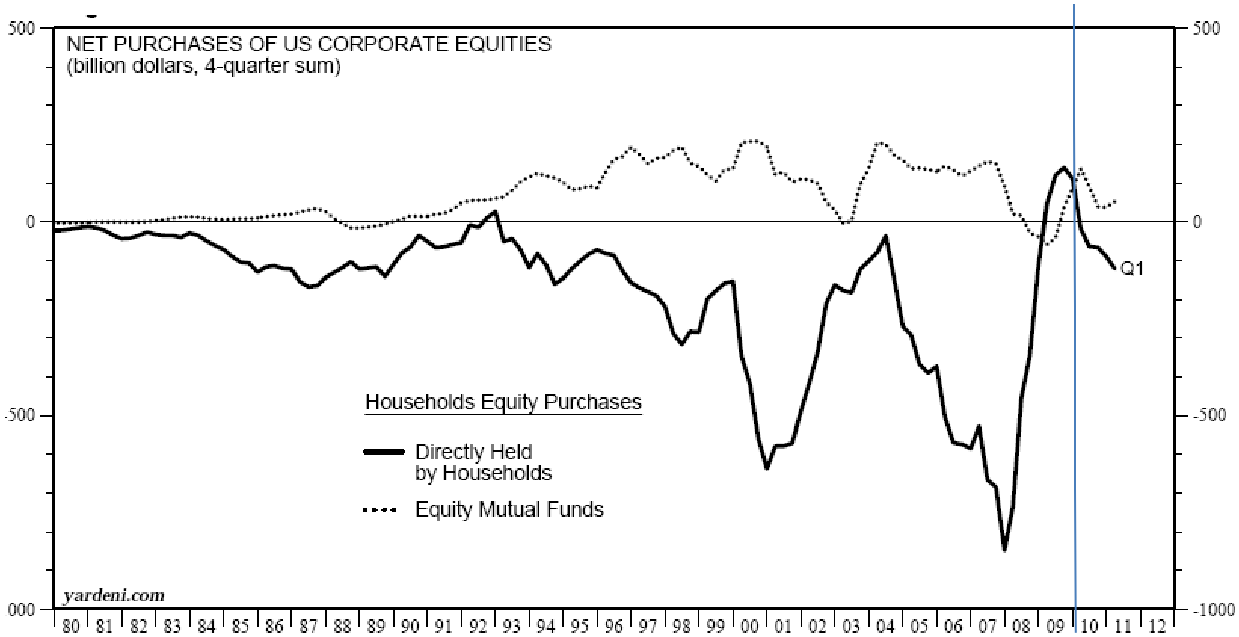
History shows that the stock market goes into bull mode when the yield curve is steepening, begins to slow as the yield curve flattens and drops into bear mode when the curve inverts i.e. when short rates exceed long rates. **We are not near a condition that suggests the onset of a bear market.** The NASDAQ has gained an average of 15.5% in the 12 months following a quarter when the yield curve has been 2.8 points (*i.e. spread between the 10 year Treasury and Fed Funds*) in 22 of the quarters out of the 25 where this condition has occurred.

10 Year U.S. Treas. - Fed Funds Yield Curve
vs % Change in NASDAQ
1980 to Present



Source: Bloomberg, Federal Reserve

The ordinary investor has a habit of buying when he/she should be selling and selling when he/she should be buying. They are selling now. The following chart from Yardeni.com shows the tendency for households to liquidate equities. They have been net sellers since Q1 2010 after having been late to the recovery in 2009. Their selling has picked up in recent months. . . Oh well . . .



Source: Federal Reserve Board, Flow of Funds Accounts.

I opened this note with a quote from Warren Buffett suggesting people should invest when no one else is interested. Given the foregoing information, it is safe to say that we are in a time when few people are interested in investing in equities. I use wildebeests as a metaphor for the "crowd" of normal investors**.**

I think it's time to be the lion, not the wildebeest.