The Wildebeests are Running Again . . . When there is panic in the herd there is money to be made

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

Jeb B. Terry, President
Aberdeen Investment Management, Inc

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jbtsr@aberdeeninvestment.com www.aberdeeninvestment.com

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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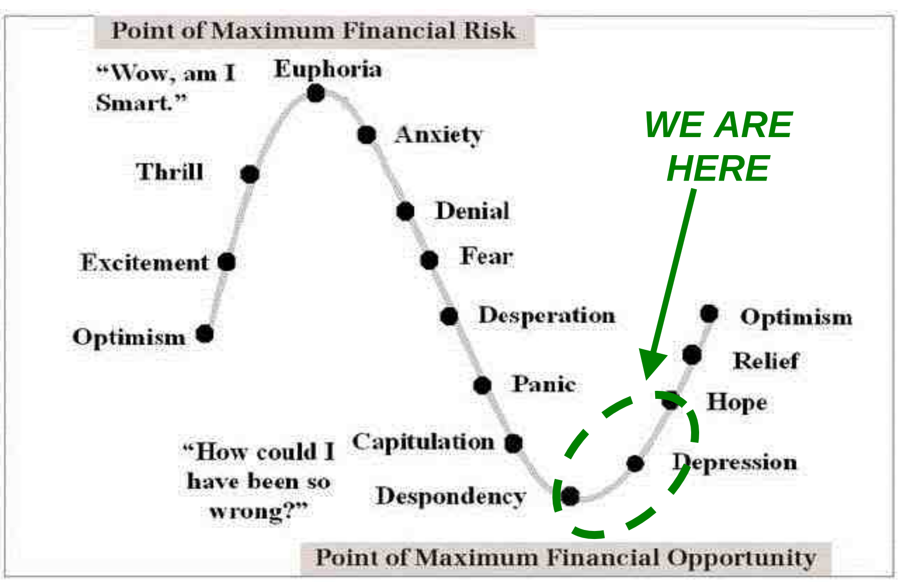
This cartoon from the Economist in September 2008 seems to capture the sentiment lately. I think we are finishing the top half and headed to the bottom part – the trigger will likely be earnings reports.



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. **Clearly we are either at or near the Point of Maximum Financial Opportunity**.

Executive Summary

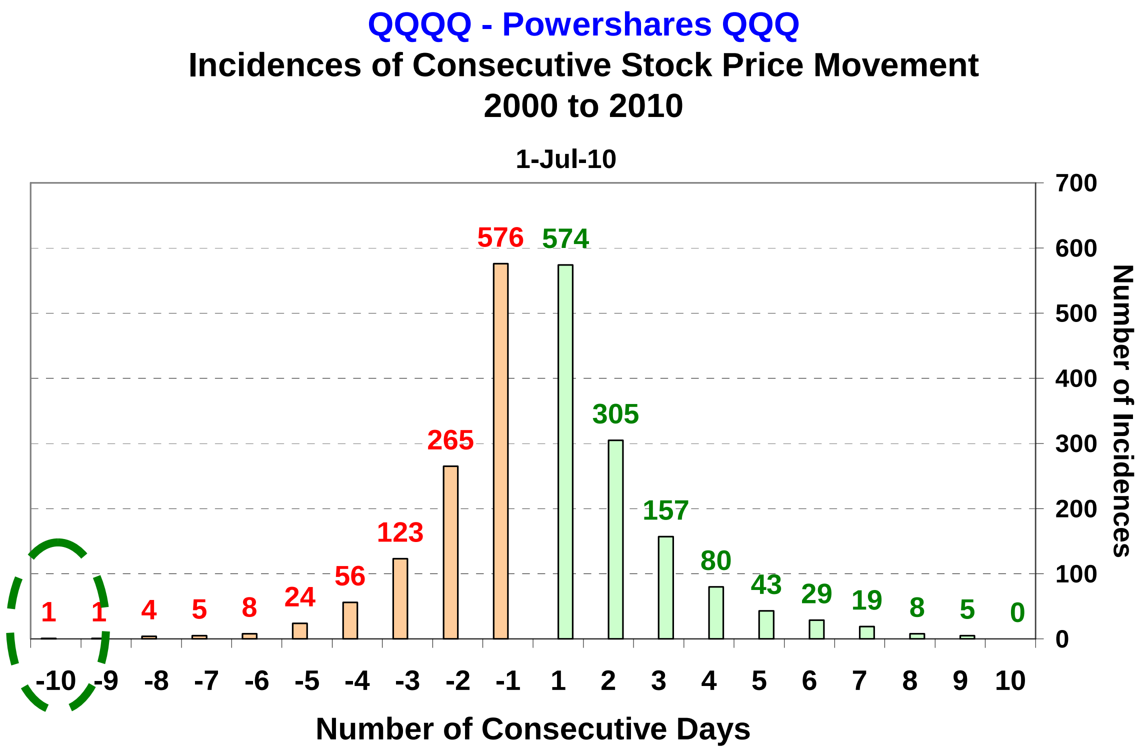
I have never seen as strong a confluence of indicators in support of a market bottom and prospects for a rally.

- A record number of consecutive down days in the QQQQ
- Extreme 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.
- 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 have haven't seen this low a valuation since December 2008 and March 2009 – the panic lows of the last bear market.
- We have not had a recession or a bear market when the yield curve is as steep as now.

The recent sell off seems to be an extreme reaction. The next news wave will be earnings related. There is over $800 billion of cash at S&P 500 companies available for M&A and stock buybacks which increased 80% in Q1 from 2009. It is normal to expect buybacks to pick up following earnings reports – like those coming up this month.

March 2009, with similar conditions as now, marked the start of a greater than 90% move from the NASDAQ low to the April 2010 high close. July 2010 could mark the start of a similar move.

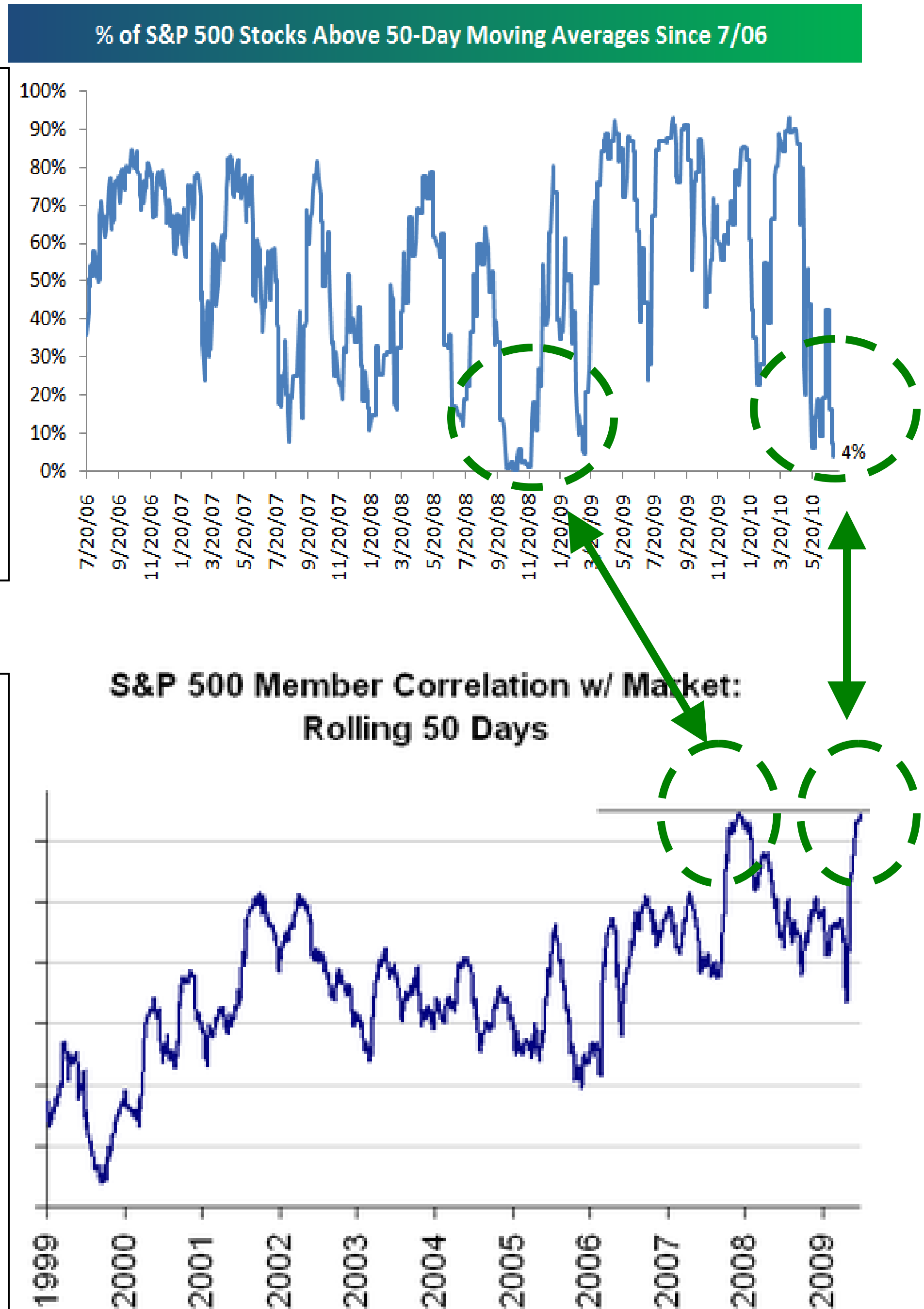
Until now - there has <u>never</u> been an episode of 10 consecutive down days in the history of the "QQQQ's" – the ETF designed to mimic the NASDAQ 100 – and one of the most actively traded securities in the market.



Buying stocks following a spike in consecutive down days has been profitable in the past – such as in 2006 and 2008.

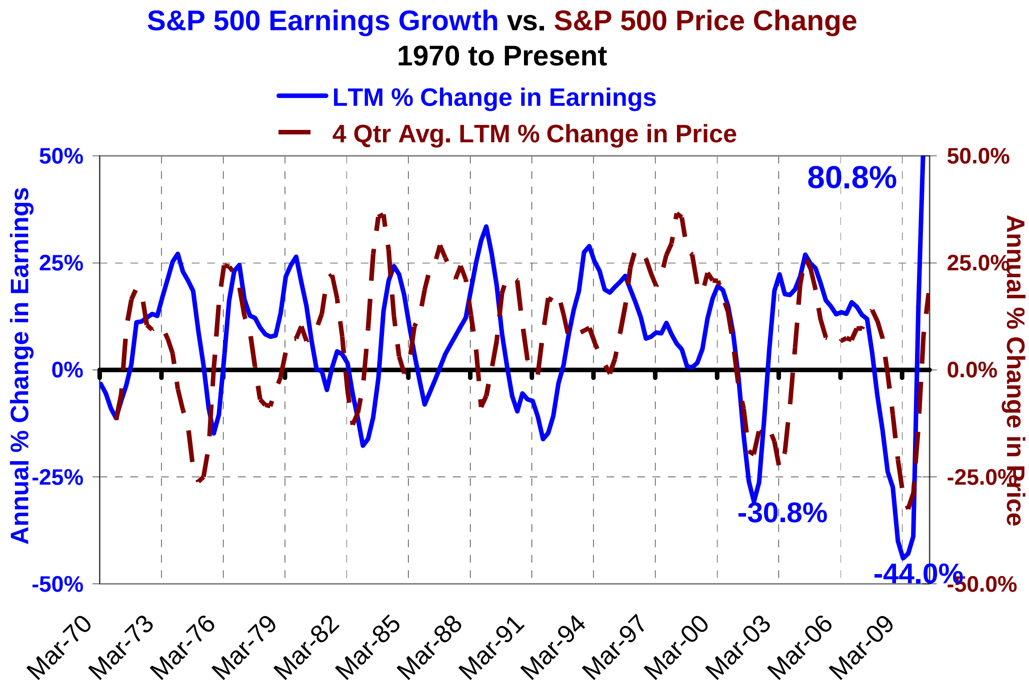
The market is exhibiting near **record extreme oversold conditions**.

"The percentage of stocks in the S&P 500 now trading above their 50-day moving averages is down to 4%. At the March 2009 lows, the reading only got down to 5%, so that gives investors a good idea of just how extreme this decline has gotten."
Bespoke Investment Group

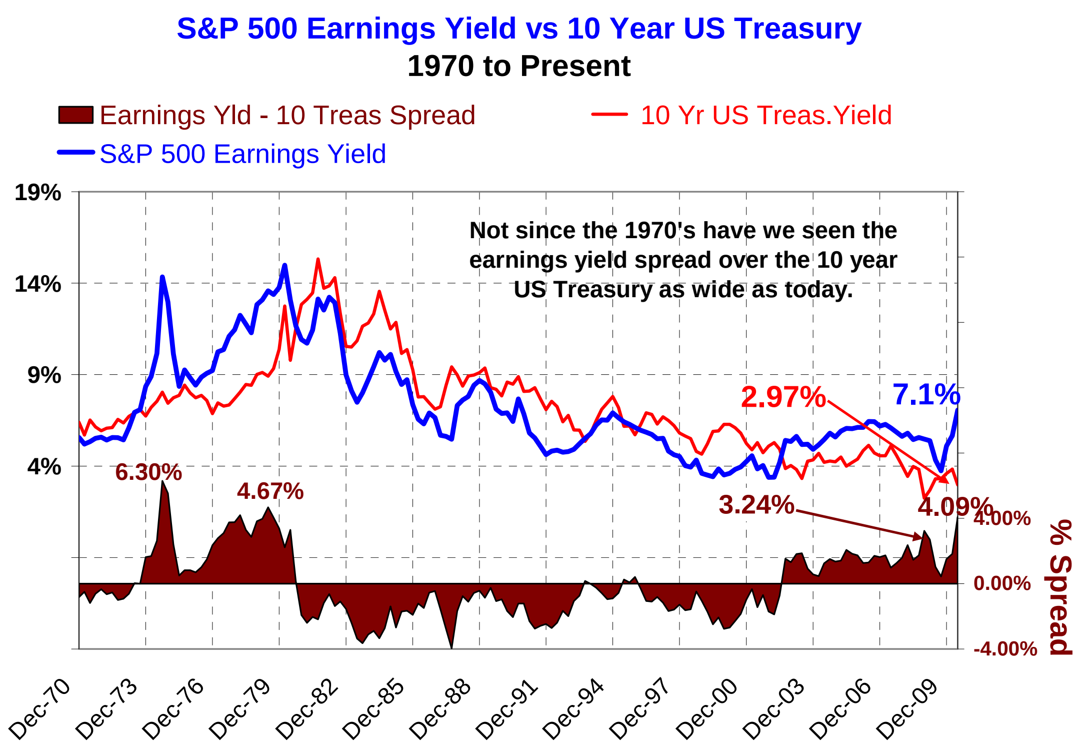


Birinyi Assoc. points out that **there hasn't been as high a correlation amongst the members of the S&P 500** (i.e. they are all moving together in the same direction) **since the market panic lows on late 2008**. This doesn't mean we can't go lower but history says we are near a bottom. Of course earnings are MUCH stronger now and the economy is MUCH stronger now vs. then.

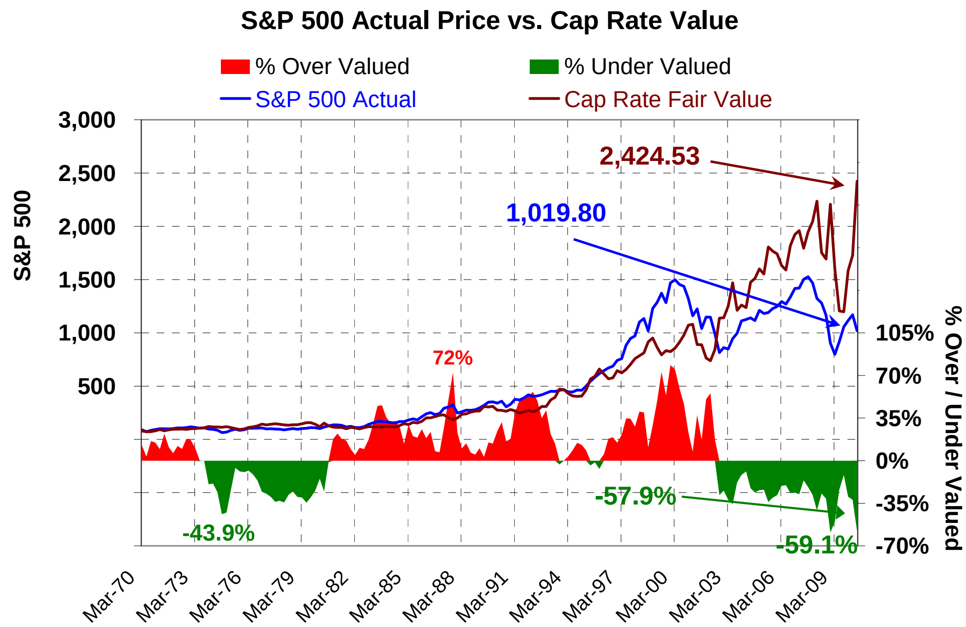
There has not been a sustained decline in the market when there is strong earnings growth such as seen in the market up to now and expected for Q2.



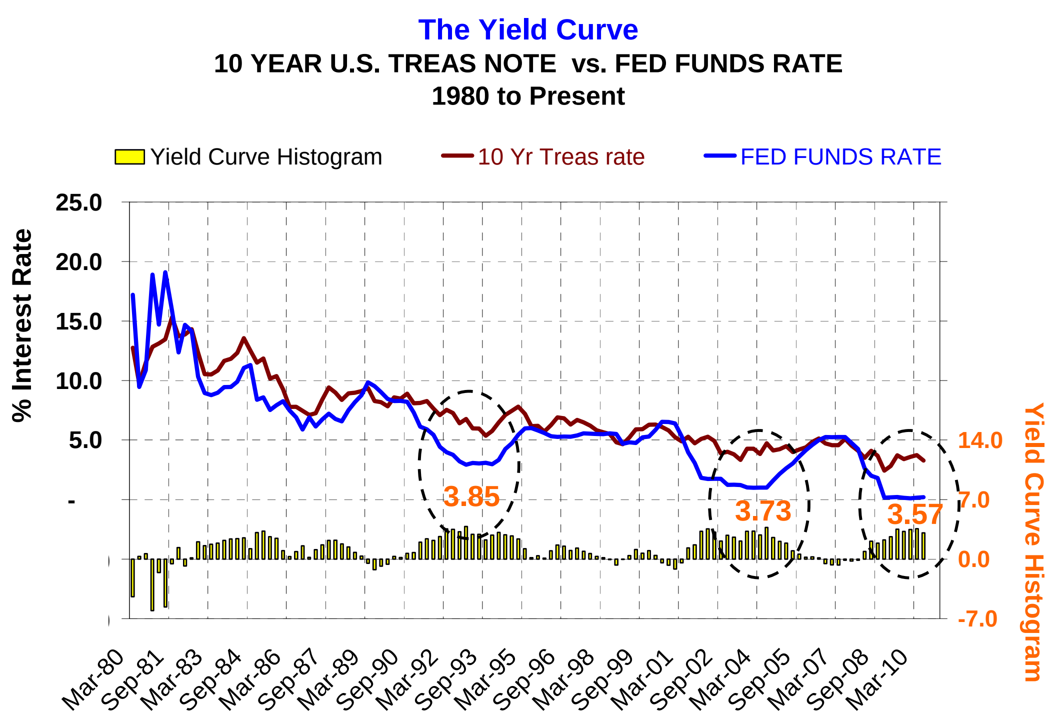
The earnings yield has not been as strong as now since September 1990 – a bear market bottom. The spread between the earnings yield and the 10 year Treasury rate is the widest since 1979 when the S&P 500 gained 12.3% for the year. **Spikes in the spread have been coincident with market bottoms**.



It's a math thing . . . The combination of low Treasury rates and a high earnings yield results in a near record low undervaluation. We have haven't seen this low a valuation since December 2008 and March 2009 – the panic lows of the last bear market.



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



Source: Bloomberg, Federal Reserve