



### OUTLOOK

"Signs of Capitulation in the S&P 500"  
9/30/2008

The recent failure of the bailout has brought the market down to its knees. On 9/29/08, several major stock indices declined by record amounts in terms of points declined. Is the financial system going to collapse? Judging by market sentiment, investors may think so but we think this may be a good time to begin scaling into the market.



As shown in the above graph, the VIX fear gauge reached 48.40 on 9/29/08, the highest level in over 10 years. This is higher than any point during the bear market of 2000 to 2002, 911, or Asian Currency Crisis in 1998. Based on the historical extreme of the VIX, we think enough fear has hit the market to set the stage for a rally. In addition to a high VIX level, a sinking 10-Year Treasury Yield (TNX) has been another sign of extreme fear as investors flee stocks for the safety of bonds. We are entering the home stretch for election season as we are nearly one month away from the elections in November. Given the extraordinary fear in the market and political stakes high with one month to go before the election, we think chances are high that the S&P 500 will rally and surpass 1200 within the next 2 months.

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