Tillman Stock and Bond Hotline

For: Thursday, September 22, 2011

(800) 219-1333 vethotline@vanecktillman.com

The U.S. stock market remains in the correction that began back in late April. Less than two weeks after that bull market high earlier this year, we told subscribers to stop putting cash to work in the stock market. Our expectation was that the market would suffer a correction of 10 to 15 percent and then end the year on a strong note. Based on that scenario, we decided not to raise cash. As we saw last year from April to September, investors and speculators have to move fast during bull market corrections if they want to step out of stocks (taking profits) and then jump back in before prices take off to the upside. We are hearing a lot of talk these days about how the stock market is approaching a repeat of the 2008-2009 bear market/crash. The way stocks have declined during the past few days, many investors are more than willing to believe that such a dire scenario is developing. To compare the current states of the economy and the stock market to conditions in the spring and summer of 2008 - just before the market began to fall hard and fast - might help to sell ads in the media but it does little to hash out where we are today and where things are likely going from here.

Yesterday, the FOMC followed the exact path that we expected - by announcing a change in the way it is handling the ongoing second round of quantitative easing. When people claimed in recent weeks that the Fed is effectively out of bullets to help the economy, we pointed out that the central bank could change the mix of its Treasury holdings - from near-term debt to long-term debt. In its post meeting statement yesterday, the FOMC said the following, "The Committee continues to expect some pickup in the pace of recovery over coming quarters but anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. Moreover, there are significant downside risks to the economic outlook, including strains in global financial markets." Many investors chose to ignore the first part - where the Fed said that it expects the pace of economic growth to improve during the time ahead - and instead focused on just three words - "significant downside risks." Such selective analysis has helped to knock the market down by 5.6% since the FOMC's statement was released yesterday.

You know how we feel about the economy in 2011. Earlier this year, we expected GDP to post a growth rate of three percent or more. Some near-term headwinds came on the scene (Japan and gas prices) and the pace of economic growth nearly ground to a halt during the first half of the year. We have been expecting the pace of growth to improve as the year comes to a close. The disruptions tied to the Japan disasters have begun to dissipate and the price of gasoline has already fallen by about 11 percent since its early May high. Given the recent drop in crude oil to $80.00 per barrel, it seems quite likely that gas prices will be moving even lower soon. As the stock market has fallen during the past day or so, there has been little in the way of solid facts behind the selling. Blind fear has been the main driver and that in itself is a bullish development. While corrections

can be a pain to sit through, they are a natural mechanism of the marketplace - which help to relieve near-term overbought conditions.

When we turned near-term negative on the stock market in early May of this year, one of our biggest complaints was the relatively high level of complacency amongst the bulls. We hate to see fear levels at such low levels, because it means that all or most of the good news has already been built into stock prices and therefore the market is vulnerable to reversals if the news flow suddenly turns sours. Back when the stock market was hitting its multi-year bull cycle high in April of this year, the reading of bullish sentiment from Investors Intelligence was running near 55%. That had us worried. At the time, bearish sentiment was bouncing along in the area near 16%. Since the stock market hit a cycle high about five months ago, a lot has happened both with stock prices and sentiment. The Wilshire 5000 is currently down by 18.4% from its April 29 bull market closing high of 14,432.20. That is a bit deeper of a hit than we had anticipated going into the correction, however it is not beyond what we have discussed.

On Monday of last week, we pointed out that some of the sentiment data had not undergone the kind of transformation that we would normally see during such a correction. The media made the most it could out of the decline in the market during late July and early August. As the dust settled following the early August bottom and bounce in the market, many of the sentiment numbers failed to give off clear buy signals. Therefore, on September 12, we said that the market, "might very well need one more flush to the downside to thoroughly cleanse the market of complacency." At the time, the Wilshire 5000 was trading at 11,937 - putting it some two percent above the August 8 low. Given the violent nature of the downside action during the past few days, you might be surprised to learn that the broad stock market is down by only 1.4% since we published those words early last week. We believe that the weakness of the past few days FEELS worse than it actually is - at least in terms of the impact on the average diversified stock portfolio. However, those feelings carry real weight when it comes to the way analysts and investors look at the path ahead for stocks.

Before the market sold off this week, Investors Intelligence released its latest look at sentiment. The reading of bulls was 37.6% and the bears came in at 39.8%. As you can see, the number of bears has actually surpassed the bulls. The last time that happened was in the summer of last year and the event correctly predicted that the market selloff was coming to an end. The stock market still has a number of positive things going for it. Despite claims to the contrary, the U.S. economy is doing okay. There have been plenty of reports during the past month that showed the economy is stable or even improving. Corporate earnings are also in good shape. The bear market of 2008-2009 was very much a reflection of a crash in corporate profits. So far, earnings look to be on track to grow during the rest of the year and into 2012 as well - when S&P 500 earnings are expected to reach a new all-time high. Based on the earnings growth that has already taken place during the past year, the stock market looks like a good value.

The Wilshire 5000 closed today at 11,771.72, down by 909.88(7.2%) in the past week. The Volatility Index (VIX) closed at 41.35, up from a close of 31.97 from a week ago. The yield on the 10-year Treasury note closed at 1.72%, down from 1.99%. The Wilshire 5000 managed to close above its August 8 low of 11,677.50. Here is a look at the August closing lows of some of the other major stock indices. Dow: 10,719.94. S&P 500: 1,119.46. Nasdaq Composite: 2,341.84. Dow Transportation: 4,221.60. Russell 2000: 650.96. Looking at that list, the Dow just closed at 10,733.83, up by 0.1% from its August low. The S&P 500 closed at 1,129.56, up by 0.9% from its low. The Nasdaq closed at 2,455.67, up by 4.9%. The Dow Transports closed at 4,149.94, down by 1.7% from the August low. The Russell 2000 closed at 643.42, down by 1.2% from the August low. The relative weakness of those last two indices shows that investors are convinced that the economy will soon drop into a new recession. We disagree with that analysis. Now it will be up to the market to decide the truth. More next week.

Next hotline updated no later than 6:00 PM. Eastern on Thursday, September 29, 2011