

# Profitis Capital Services LLC



**A FEW THOUSAND WORDS**

**MARCH 3, 2012**

## Executive Summary

The multi-year rally in risk assets has continued in 2012:

	<b>Since March, 2009</b>	<b>Since August, 2011</b>
S & P 500	71.1% (20.2% annualized)	12.0% (25.5% annualized)
Crude Oil	113.1% (29.6% annualized)	18.4% (40.3% annualized)
Gold	88.5% (24.3% annualized)	-0.75% (-1.5% annualized)

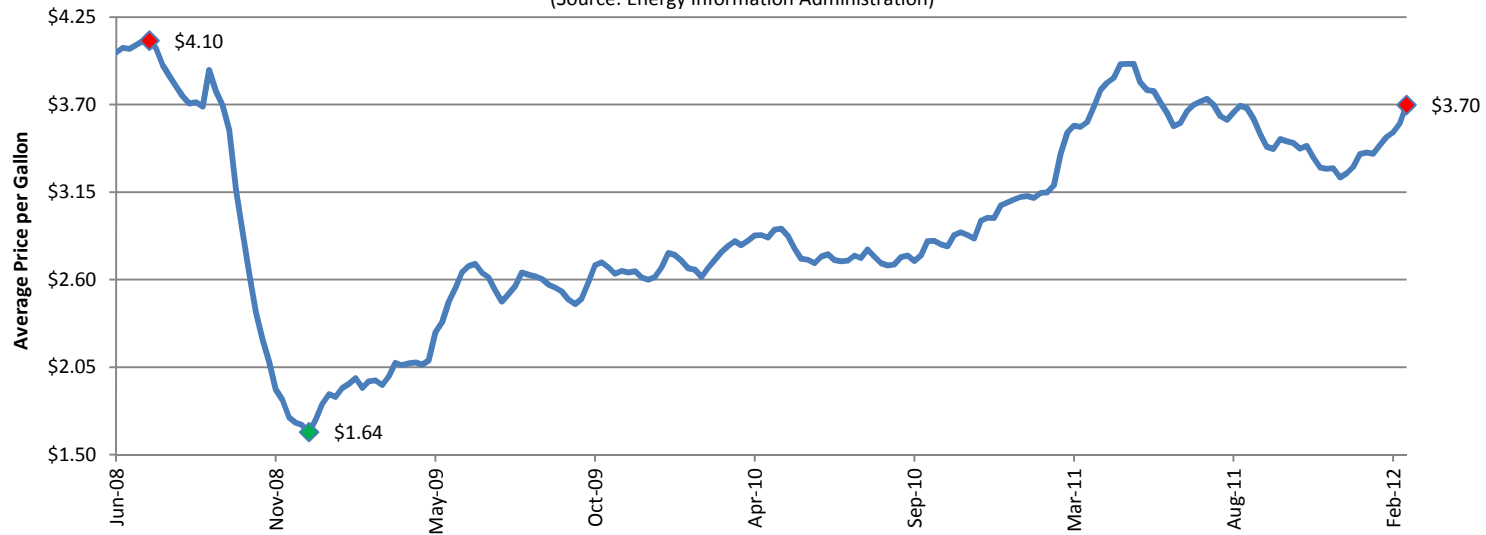
There can be little argument that the accommodative monetary policies around the globe have provided a substantial amount of fuel to this machine. Is the rally running on fumes?

The charts contained herein highlight some peak/trough conditions that, in their confluence, point to a cautious outlook.

# Pressure At The Pump

## Retail Gasoline Prices: All Grades (Conventional)

(Source: Energy Information Administration)



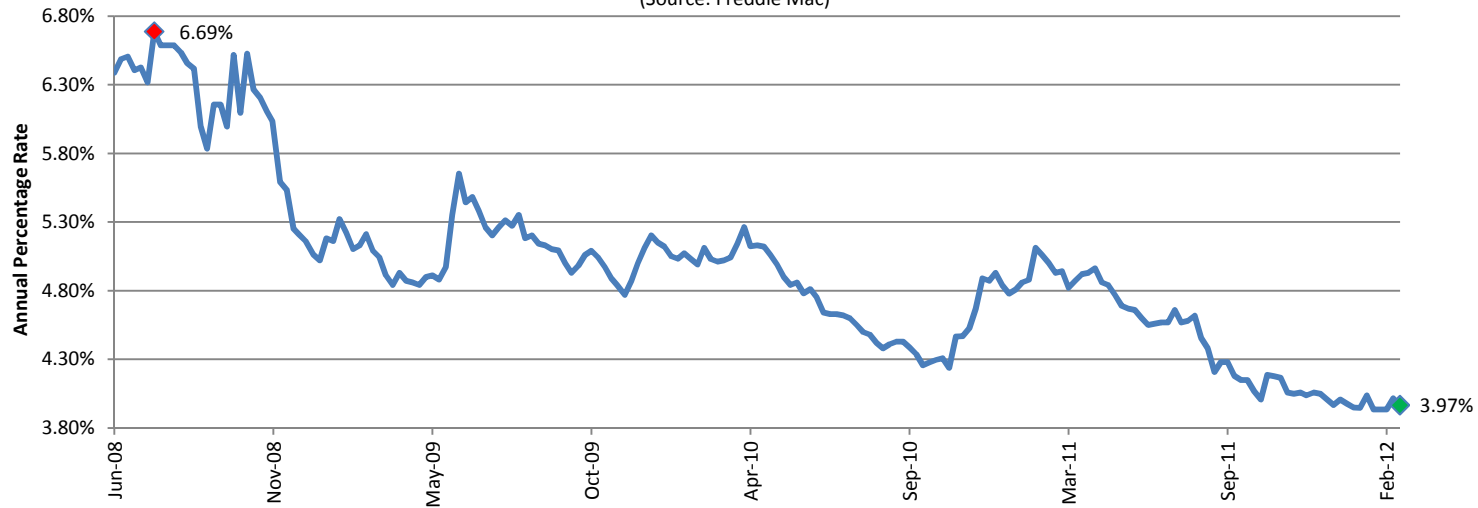
During the 2<sup>nd</sup> half of 2008, gasoline price fell an astonishing 60%. 3+ years hence, the price has climbed by 125.2% (29.3% annualized). The most disturbing facet of the recent climb is the timing: the spring/summer driving season and corresponding reformulation are still weeks away.

Based on our estimates, the average U.S. household is paying **\$2,724 more per year** to operate their “fleet” of vehicles since 12/2008.

# Mortgage Rates

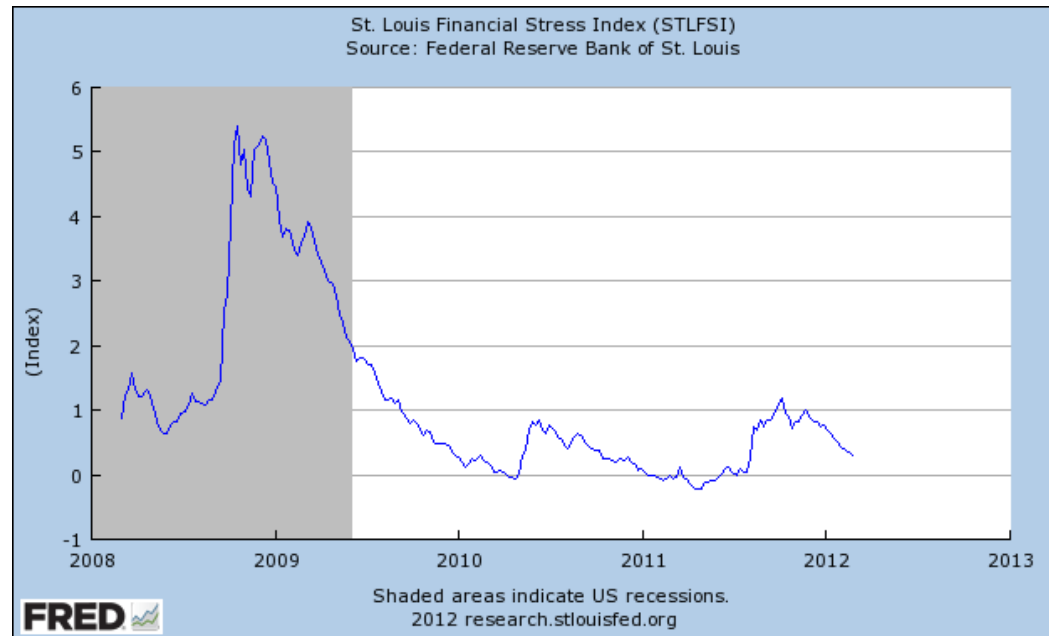
## 30 Year (Fixed) Mortgage APR: Freddie Mac Weekly Survey

(Source: Freddie Mac)



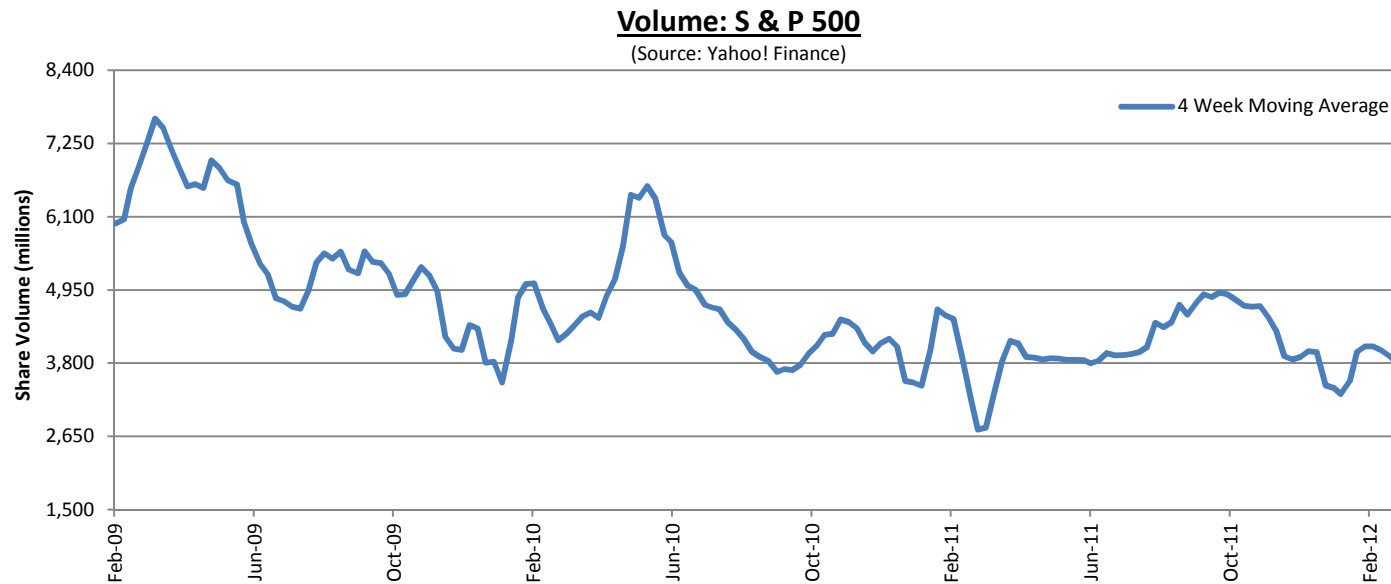
Mortgage rates have fallen by more than 272 basis points since July, 2008. This translates to an annual interest expense reduction of \$2,029 for every \$100,000 borrowed. Can mortgage rates fall much further?

## Corporate Environment



The St. Louis Fed's Financial Stress Index incorporates interest rates, yield spreads and associated market data to determine the amount of funding pressure that corporations are operating under. Prior to 2008, there are index observations below zero. However, monetary conditions have changed dramatically since those occurrences (essentially ZIRP, QE I, QE II). Can the Fed create a significantly more palatable environment for corporate treasurers than they enjoy now?

# U.S. Equity Markets I

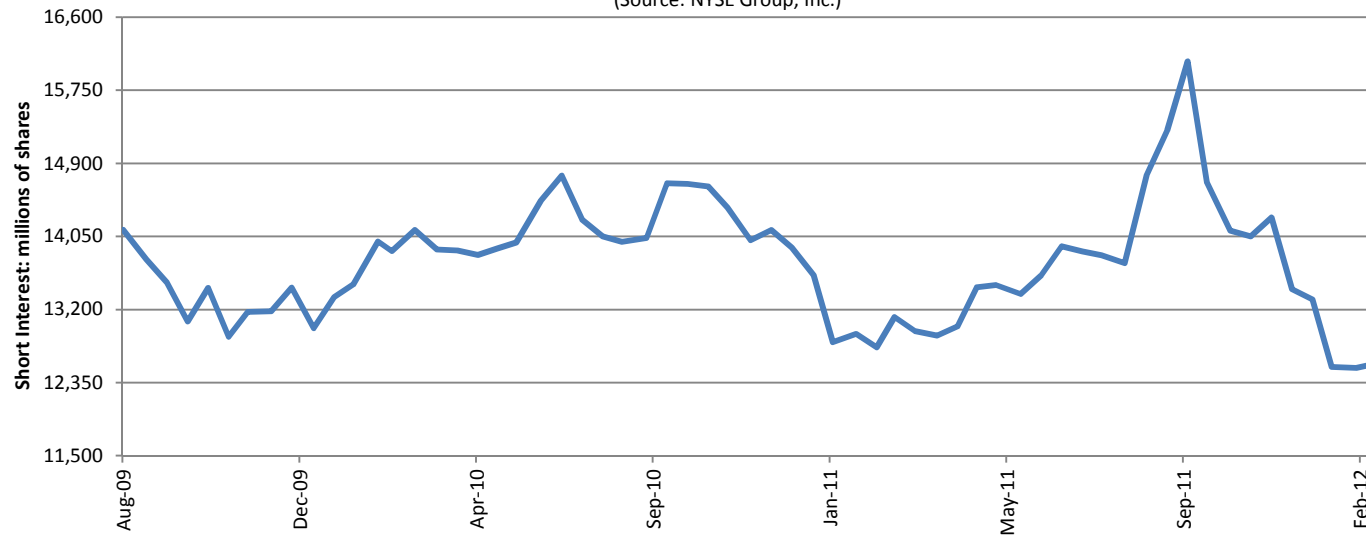


Share volume has fallen considerably over the last three years. Traditionally, light volume implies exaggerated price moves. Industry consolidation, corporate failures and regulatory changes have decreased the number of market participants.

## U.S. Equity Markets II

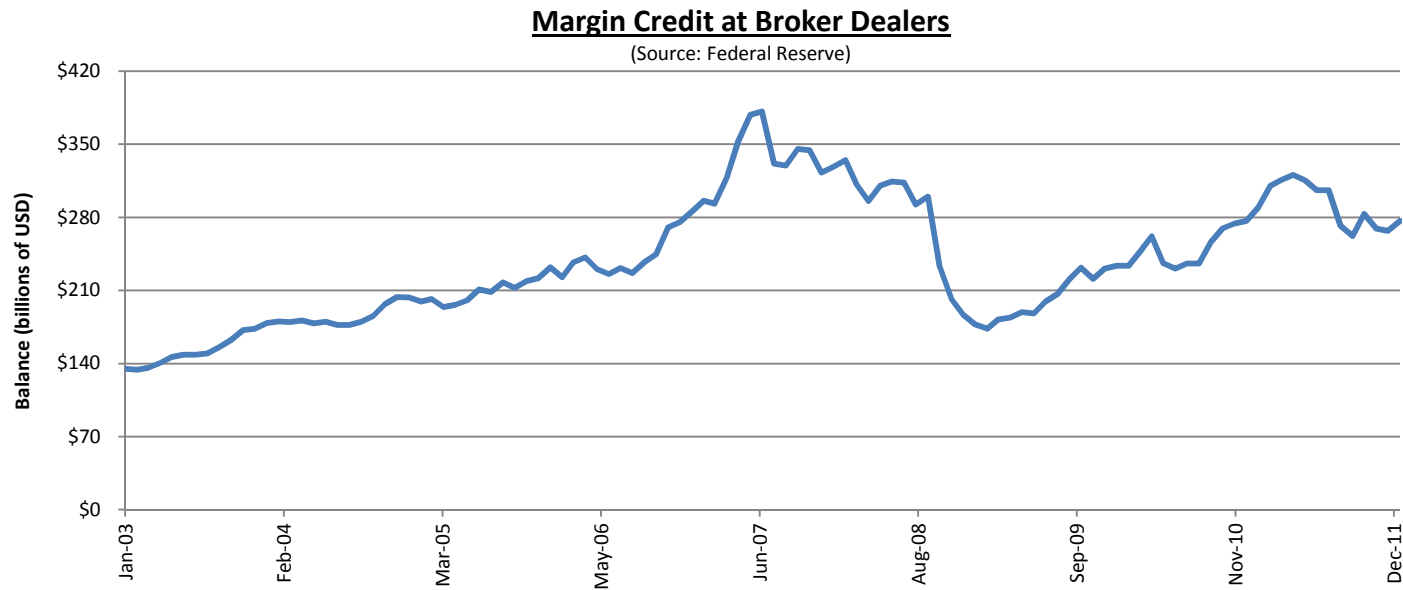
### Short Interest: New York Stock Exchange

(Source: NYSE Group, Inc.)



Short interest has fallen to multi-year lows. This measure is considered a contrarian indicator: short sellers form a pool of future buyers.

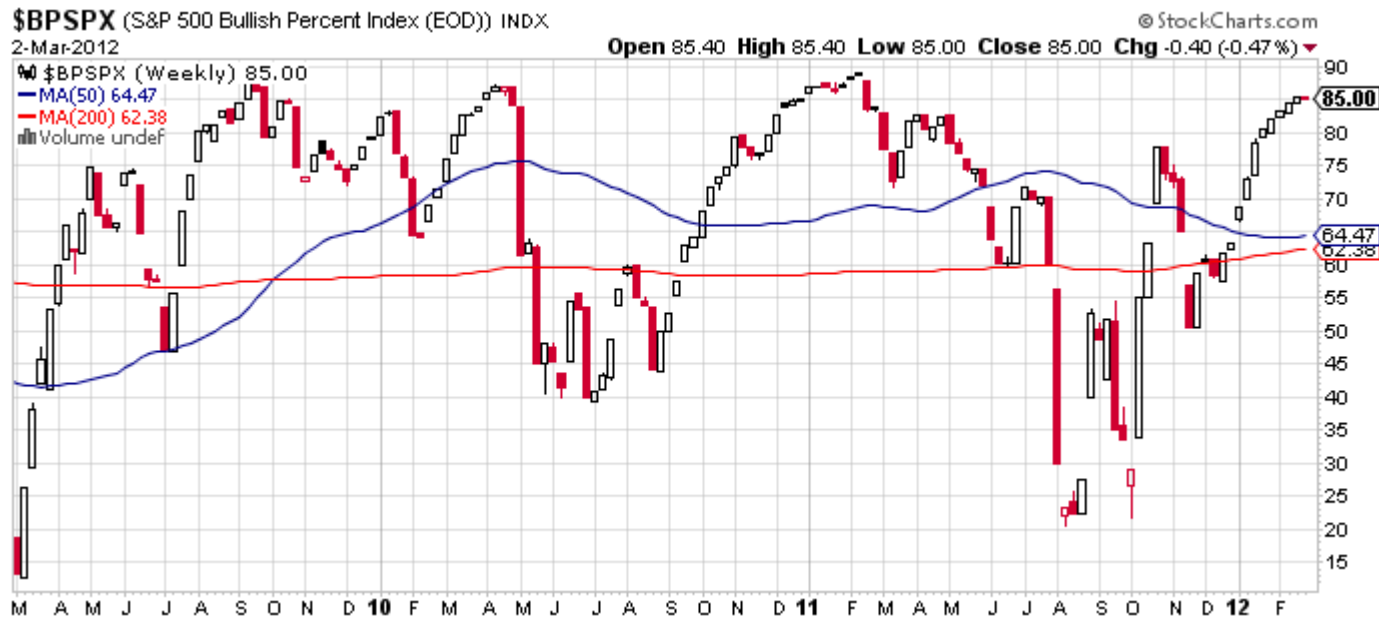
## U.S. Equity Markets III



Although margin credit is not at peak levels, balances have staged a significant recovery from the depressed levels of 2009. Anecdotally, this measure is considered to be a proxy for the level of involvement of the retail investor: higher balances indicate retail is increasing purchases.



## U.S. Equity Markets IV



85% of the issues in the S & P 500 Index are on buy signals. For this illustration, trading signals are generated by the “point & figure” technical analysis technique. Reaching such an extreme level does not presage a correction in and of itself. This extreme condition, in concert with the previously displayed indicators, should provide food for thought.

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