

April 7, 2008

First Quarter 2008 Market Commentary

A Light at the End of the Tunnel

The past nine months have been extremely trying for stock market participants. The situation has been fueled by a constant flow of negative news and pessimistic forecasts from the talking heads and the news media in general. Market volatility picked up in early summer of 2007 and stock prices slid dramatically from their highs in October to late January. Elevated levels of market volatility have extended into 2008.

It is difficult to maintain an objective view of the market and the economy during times like this. That is why I revert to old trader habits and focus on stock price action. While we believe in a long-term approach to investing and are not interested in predicting the short-term movements, technical analysis and charting are consistent with the efficient market approach we subscribe to. Both the technical analysis of stock prices and our broadly diversified structured asset class style of investing start with the assumption that all actionable information is factored into individual stock prices and the market.

We believe that the stock market established its low on January 22. It subsequently bounced and retested its January lows in mid-March. The test was successful and with each passing day we see the technical underpinnings of this market improving. Friday closes are particularly interesting because they give you a hint regarding the traders' true sentiment. If traders are bullish, they'll be more likely to hold stocks over the weekend. If traders are worried or bearish, they'll go home "clean." Consider the following based on market action through the market close on Friday, April 4.

The Dow Transport Average has stubbornly refused to confirm the weak action of the Industrial Average. The Transport Average is actually the hero of the story giving us the first indication that a bottom might be in place.

The market has had two 90% up days after the March retest of the January lows, one on March 18 and a second one soon after on March 31.

We've seen the new lows on the NYSE collapse from 1,114 on January 22 to just 10 on April 3. On April 1 we finally saw new highs on the NYSE outnumber new lows.

The market has recently absorbed and shrugged off bad news despite an avalanche of bearish opinions and forecasts, many from some of the nation's leading economists.

The short interest on the NYSE has grown to a record 16 million shares sold short --- the higher the short interest within a market that's working higher, the more bullish the situation. There's nothing more frightening to a short seller than to be locked into a market that won't go down.

The Bullish Percentage of Stocks on the NYSE has been UP ever since the January 22 low, and now the Bullish Percentage has rallied above its preceding peak to a new high since January, the new high being 46.85%. That's a bullish progression. Even better news would be to see the Bullish Percentage rise above 50%.

The Wilshire 5000 stock index has been carving out a huge base. The NASDAQ has also formed a large basing-pattern and is now doing its work well above its declining trendline. This is bullish.

It seems to me that the Dow, taken together with the Wilshire and the NASDAQ, is telling us that the stock market has already discounted the worst that can be seen ahead. The bases have been formed. The markets are in a recovery phase. Time is on the side of the bulls. By summer or early fall, it should be apparent that the US economy is on the healing path.

Enclosed is up-to-date performance and billing information on your accounts through the end of March 2008. Unless we have made a different arrangement with you, our fees will be deducted directly from your account. Please contact us if you have any questions about your performance reports or your billing. Thank you for trusting Orion Capital Management for your core investing needs. We are very interested in any comments or suggestions you may have. Also, if you would like to receive a current copy of our ADV Form, Part II Disclosure Document, please contact us.

Yours truly,

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