

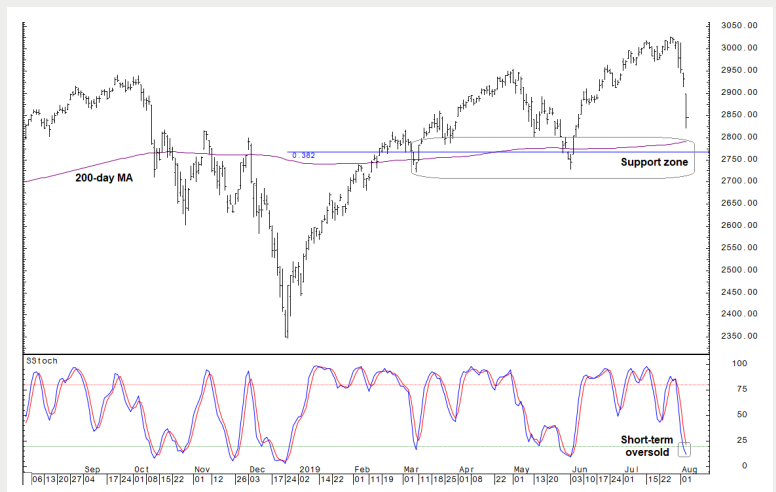
August 6—The month of July witnessed a maturing equity rally in the U.S., culminating in the first significant pullback since May. The current pullback is now approaching a zone of significant support, particularly as reinforced by current sentiment.

Our work focuses on measuring the supply and demand for equities. Many inputs influence the price of stocks- long term earnings being the most important of these. In the shorter term, economic events and news driven psychology can be at least as important. A particular point of emphasis for us are measures of sentiment. When the prevailing psychology becomes extreme, contrarian measurements become very meaningful, as witnessed at the end of December and again, to a lesser extent, at the end of May. Sentiment has now entered oversold territory. While the market could decline further into oversold territory, quite a bit of fear is already priced in, limiting downside risk.

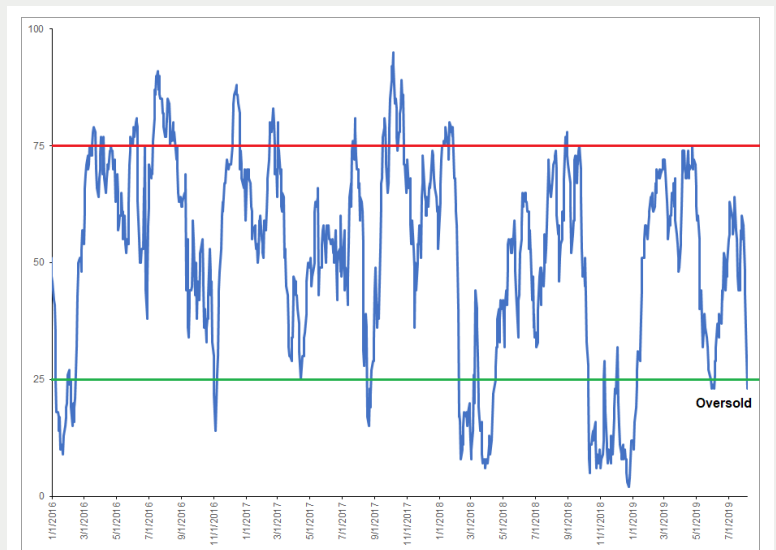
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## S&P 500—FIRST SIGNIFICANT PULLBACK SINCE MAY



## CNN FEAR & GREED INDEX REFLECTING INVESTOR SENTIMENT



Source: <http://www.cqg.com>; Fairlead Strategies