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THREE MARKET DIMENSIONS. ONE SMART PERSPECTIVE.

Asbury Alert

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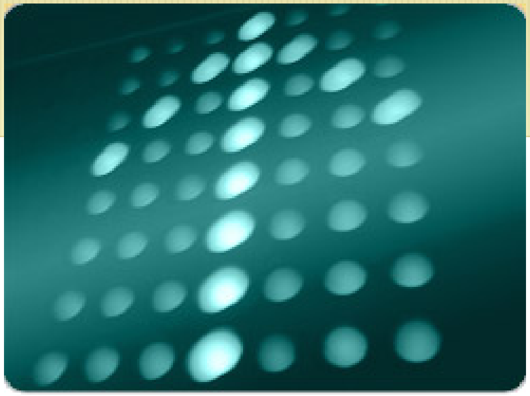

Friday, June 12th 2009

A Near Term Update On Our Larger Market Themes

Assets Pouring Out Of Money Market Funds Is A Warning For US Equities

> The massive liquidity being pumped into the market by the Fed and other central banks adds fuel to the recent rally in stocks, corporate bonds, commodities and other risky assets. The S&P 500 already is up 39% since March 9 and high-yield bonds are up 31%. Oil has doubled since February. *"The market is very prone to liquidity floods, where money on the sideline floods in,"* says James Swanson, chief investment strategist at MFS Investment Management. *"That's not a good beginning of a sustainable bull market."*

Lane Mines Pockmark Road To Recovery
The Wall Street Journal, June 8 2009
(access requires subscription)

After bottoming on March 6th, the **S&P 500 (SPX)** rose by 157 points or 23% in just the next 11 days -- which didn't give investors much time to shift their assets out of cash and back into equities. **We have contended that this "late start" by investors -- especially money managers which had to try to make up, performance-wise, for whatever they didn't capture at the bottom- was a big reason why the S&P 500 has defied gravity since then**, rising by a whopping 289 points or 43% through June 11th. If we are correct about this, it should have resulted in in the market becoming top-heavy - that is, a huge inflow of assets coming in near the latter part of the move -- which makes it particularly vulnerable to a surge of long liquidation (forced selling) on any weakness.

US INTEREST RATES & TREASURIES
last updated 4-24-2009
US DOLLAR & FOREIGN EXCHANGE
last updated 4-24-2009
THE FED, INFLATION & COMMODITIES
last updated 12-17-2008

Chart 1 displays the S&P 500 in the upper panel (black bars), the 5-day moving average of the daily assets invested in the **Rydex Money Market Fund (RYMXX**, green line) plus its 50-day moving average (blue line) in the middle panel, and *the percentage* that the daily assets invested in RYMXX have moved either above or below their 50-day moving average in the lower panel (red line).

The Rydex Money Market Fund Fund invests primarily in money market instruments issued or guaranteed as to principal and interest by the U.S. Government, its agencies or instrumentalities, and enters into repurchase agreements fully collateralized by US Government securities. It may also invest in Eurodollar time deposits. It will invest at least 80% of net assets in fixed income securities issued by the U.S. government. **We use this fund's daily asset flow data as an indication of investor capital on the sidelines.**

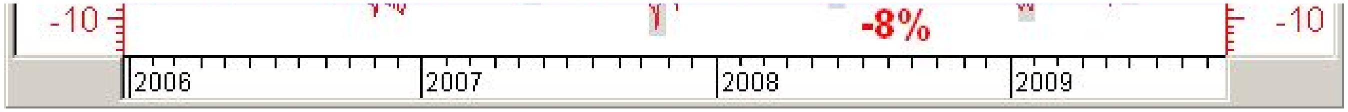

Chart 1

The gray vertical bars between all panels points out that instances when the percentage of assets invested in the Rydex Money Market Fund declined by 8% or more below its 50-day moving average, indicating that investor assets were aggressively leaving the sidelines in search of a better return (via equities), closely coincided with every significant *stock market peak* during the past two years. Statistically, the green line in the middle panel, which plots the 5-day moving average of daily assets invested in the fund, has been **81% inversely correlated** to the daily closing price of the S&P 500 (upper panel) since 2005. **The rightmost gray bar shows that these assets are at another similarly low extreme now.**

Chart 2 takes a closer look at the daily asset flows of the Rydex Money Market Fund over the past year -- particularly since the S&P 500 bottomed on March 6th. The pink highlights show that the largest and most aggressive liquidation of assets from the fund took place between March 23rd and April 20th -- *after the SPX had already risen by 23%* - which helps to confirm our suspicions that the magnitude of this rally, *without a correction*, was at least in part driven by a rush of Johnnie-Come-Lately assets into the stock market **all trying to make up for that first chunk of the move that they missed**.

The gray vertical highlights show that a second, less severe exodus of capital out of the fund took place between May 21st and the present.

Chart 2

Chart 3 attaches a trading range to each of the two highlighted periods in **Chart 2**, to try to get a handle on *at what price range* these supposed new inflows into the US stock market might have taken place. More specifically, since we have already determined that the market is a little top-heavy in terms of investor asset inflows, *what kind of a decline in the index would be necessary to put some of these late-to-the party market bulls into the red - and perhaps trigger even more selling*?

Chart 3

The pink highlights on the chart show that the first, much more aggressive outflow of assets from the Rydex Money Market Fund, between March 23rd and April 20th, took place as the SPX was trading **between 780 to 876**. The gray highlights show that the second, less severe exodus of capital from the fund took place between May 21st and the present while the SPX was trading **between 880 and 956**.

So, if we are correct in assuming that most of the assets that left the money market since March found their way back into the US stock market, *as the 81% inverse correlation mentioned earlier in this report suggests*, then a breakdown below 880 in the S&P 500 would put a significant portion of these recently-added positions into the red . This would probably spur some forced selling that could push the SPX back into the 780 to 876 range, as defined by the pink highlights. **It is at this range where, according to the huge outflow from money market funds between March 23 and April 20th, we would expect the US**

stock market to potentially get some traction and attempt to resume its March uptrend.

Conclusion & Investment Implications

The recent aggressive flow of assets *out of* the Rydex Money Market Fund (RYMXX) between March 23rd and April 20th and again between May 21st and the present (*and assumingly back into US equities*), suggest that **the US stock market has become "top heavy" from an assets-invested standpoint --** and thus particularly vulnerable to a near term decline.

Based on where the S&P 500 was trading as these money market outflows were taking place, the broad market index appears to be particularly vulnerable on a decline below 880.

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