PRING TURNER
CAPITAL GROUP

July 17, 2008

Time To Be Optimistic

Yes, the financial news gets worse every day. Yes, the average stock is down more than 25% over the past thirteen months. Yes, the housing market is still reeling and foreclosure activity is rising. Yes, the price of gas is skyrocketing. And yes, this too will pass, and the economy and stock market will begin a new expansion and sustainable bull market, as all business cycles have. Over our several decades of investment management experience, we have witnessed many business cycle recessions and stock market declines. They all have one thing in common. In the midst of the most negative financial news, the stock market (fulfilling its role as an accurate leading economic indicator) begins to move higher in anticipation of the next economic recovery. **We believe the market has more than discounted all the bad news out there and is putting the finishing touches on the bottoming process for stocks.** Yes, a significant advance is set to begin that will take stocks much higher in the year ahead.

Considering all the negative financial headlines, is it any wonder investor psychology has reached a gloomy extreme? Legendary value investor and philanthropist Sir John Templeton made a career (and fortune) taking advantage of bargains that showed up during recessionary periods and bear markets. His foremost investment discipline was geared to wait patiently for stock prices to "reach the point of maximum pessimism" and then he invested. It is somewhat ironic that this pioneer of value investing, who began his career in the 1930's, would pass away this month at the age of 95, just when the markets have hit an emotional low point. We know Sir John would be buying stocks during today's financial turmoil. Investor psychology has reached that pessimistic extreme and conversely sets up the year ahead to be a very profitable one. In the remainder of this newsletter, we expand on four potent reasons to support our forward-looking optimism.

> *"Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria."*
>
> *Sir John Templeton*

Four Key Reasons To Be Optimistic Today

1. Low Consumer Confidence = Profits Ahead
2. Bull Markets Always Follow Bear Markets
3. Lower Oil Prices Ahead
4. Record Cash Levels on Sidelines

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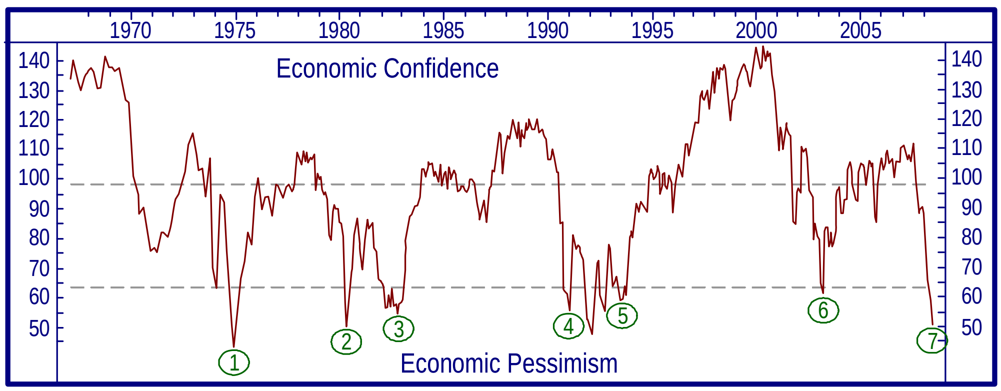
Reason #1: Low Consumer Confidence = Profits Ahead

This may at first sound a bit counterintuitive, but the good news is American consumers' level of confidence has reached a 28-year low. How can that possibly be good news? In the 40-year history of gauging consumer confidence, whenever attitudes tumble to this pessimistic extreme, stocks have already greatly digested and discounted the bad news. As detailed in the chart and table, we have identified six prior times when consumer confidence had fallen to this extreme low level. **Each time, despite all the bad news, a new bull market for stocks began and significant stock market gains followed. We expect this seventh episode to end profitably as well.**

Bull Markets Start When Confidence Is Low!

Conference Board Consumer Confidence Indicator



	Low Confidence Bull Market Start	Bull Market Length/Months	Dow Jones Average Percent Gains
1	1974	19	+75%
2	1980	13	+28%
3	1982	60	+250%
4	1990	45	+74%
5	1994	60	+158%
6	2002	60	+99%
7	2008	?	?

History Shows Buying When Consumer Confidence Is This Low – Significant Stock Market Profits Follow!

Reason #2: Bull Markets Always Follow Bear Markets

To add perspective to current market conditions, we have compiled information summarizing past bull and bear market cycles since 1960. Since then, there have been 11 bear markets with each followed by new long term bull markets. Please take some time to study the table of information on the accompanying page, particularly the "News Events of the Day" column. There are two key points about bear markets we would like to highlight: First, investors are always faced with intensely negative news and many times a "crisis atmosphere" which pushes stock prices temporarily lower; second, **bull markets begin in the middle of all the bad news**. Historically the bull markets rewarded investors with gains on average exceeding 90%.

Reason #2:

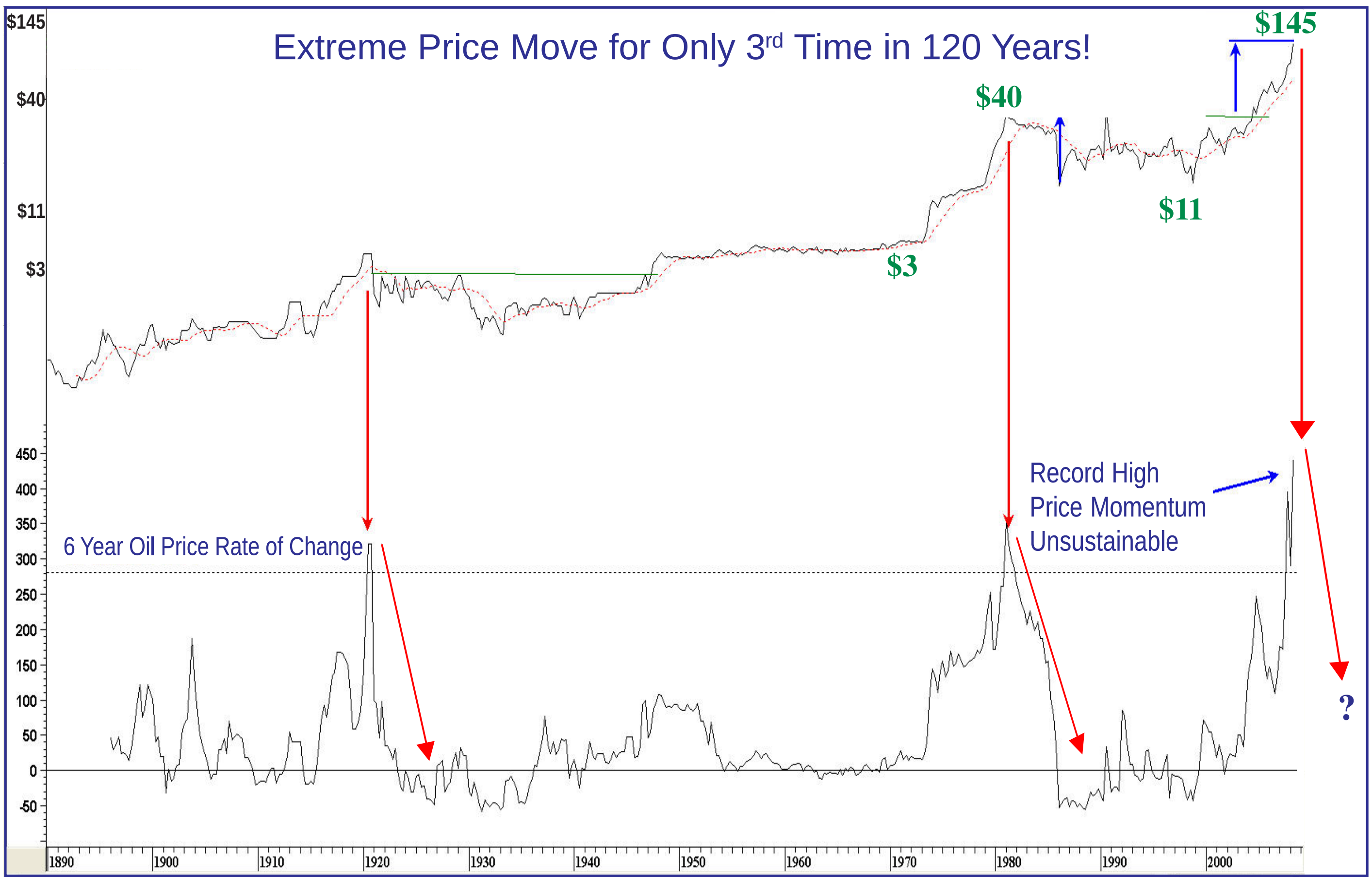
Historical Look at Bear/Bull Stock Market Cycles

Bear Markets Since 1960			*News Events of the Day*	*Bull Markets Since 1960*		
Began Year	**Length (Months)**	**Dow Average Decline**	*As Bear Markets Give Way to New Bull Markets*	**Began Year**	**Length (Months)**	**Dow Average Gain**
1961	6	-27%	Cuban Missile Crisis, Cold War Tensions High	1962	42	+86%
1965	8	-25%	Escalation of Vietnam War, Riots in Watts	1966	26	+32%
1968	18	-36%	Auto Strikes, Violent War Protests, Soviets Invade Czechoslovakia	1970	32	+66%
1973	23	-45%	Arab Oil Embargo, New York Near Bankruptcy, Watergate Scandal, Egypt & Syria Attack Israel	1974	19	+75%
1976	17	-27%	Rising Inflation, Economic Malaise, “Stagflation”	1978	38	+38%
1981	15	-24%	Worst Recession Since 1930s, Mexico Bailout, Interest Rates Rise to 20%	1982	60	+250%
1987	2	-36%	Greenspan Raises Rates Sharply, “Program Trading” leads to Stock Market Meltdown	1987	33	+72%
1990	2	-23%	Iraq Invades Kuwait, Savings & Loan Scandals	1990	45	+74%
1994	9	-12%	Greenspan Fears Inflation, T-Bill Rates Double in 10 months	1994	60	+158%
1998	4	-21%	Asian Economic Crisis, Russia Defaults on Debt, Long Term Capital Bailout by Fed Reserve	1998	15	+61%
2000	33	-40%	Tech Bubble Bursts, Recession, 9/11 Attack, Corporate Accounting Scandals, Iraqi Conflict	2002	60	+99%
2007	**?**	**?**	Housing Collapse, Banking Crisis, Surging Oil Prices, Wall Street Failures	2008	?	**?**
Average (11 Bear Markets)	**13**	**-29%**		**Average** (11 Bull Markets)	**39**	**+92%**

Reason #3: Lower Oil Prices Ahead

A major factor influencing consumer pessimism is oil prices have doubled in the last year. At every level of spending, consumers are feeling pain of higher energy costs, whether it is filling the car up with gas or buying groceries. Any relief from spiraling energy costs would be a major step toward improving investor psychology. Looking at our chart of the 120-year history of oil prices, clearly the recent price gains are at unsustainable levels. The chart depicts oil prices and our long-term momentum tool (6 year rate of change) showing only two other times in history oil prices have been this stretched. Each time was followed by a significant price decline. While others are projecting $200 oil, our tools and research suggest an important turning point forecasting lower prices.   **We think the most likely outcome will be a significant decline in oil to $100 or lower before the year is over.** This positive surprise for investors will be a major catalyst for the next bull market lift-off.

Crude Oil



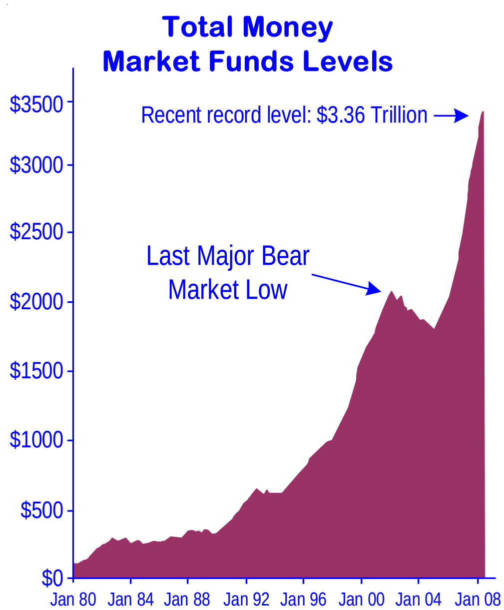
Source: Pring Turner Capital Group

Major Positive Surprise – Lower Oil Prices Ahead!

Reason #4: Record Cash Levels on Sidelines

Another positive sign is the enormous cash pile investors have sitting in money market funds. This record amount of cash is fuel for the next bull market advance. In fact, cash levels in money funds as a percent of the total value U.S. stocks equals a record high 27%! This level is higher than the start of any bull market of the past 30 years. **A little improvement in the news, an end to the oil price spike, and a shift in investor attitudes toward optimism will open the flood-gates of money fund assets flowing back into stocks.** A virtuous cycle can begin once again.

Fuel for Bull Market Liftoff



Ratio of Cash to U. S. Stock Value

$$\frac{\text{Money Market Funds}}{\text{Total Value U. S. Stocks}} \quad \text{or} \quad \frac{\$3.36 \text{ Trillion}}{\$12.39 \text{ Trillion}} =$$

Cash to Market Value at <u>27%</u>

is the Highest Level Ever !

So Much Money . . . So Little Stock!

Conclusion

In this expanded newsletter we have laid out four key reasons to expect a strong stock market going forward. Consistent with our January newsletter message, we expected 2008 would be a transition year from bear market to new bull market. We have arrived at that important transition point**.** History shows that just as day follows night, bull markets always follow bear markets. **It is time to be optimistic!**

Pring Turner Capital Group portfolios held up very well during this tumultuous past year. You are positioned to easily achieve new levels of wealth. We appreciate your continued confidence and trust. As always, please feel free to contact us with any questions regarding your portfolio or any significant changes in your circumstances.