

## **‘NOWHERE NEAR MARKET BOTTOM,’ SAYS QUANT FORECASTER**

February 5, 2009

TORRINGTON, CONN.—Reid Holloway has a terrible sense of humor. And he’s predicting a stock market crash.

“I remember reading *Mad Magazine* when I was a kid, and I loved the cartoons,” he explains. “The one that still sticks in my mind shows a guy behind the wheel of a car wreck wrapped around a tree. A Good Samaritan comes by and asks, ‘Have an accident?’ ‘No thanks,’ replies the unfortunate motorist, ‘already had one.’ ”

That’s the way Holloway feels about letting the world know now that his RLH Volatility Model (thoroughly described on his web site, <http://stocksthatwiggle.com>) is predicting a crash in the stock market.

“After all,” Holloway points out, “stocks have already been cut in half since their October 2007 highs.

“Having said that,” he continues, “I’m thoroughly convinced that the ‘support levels’ many experts believe were established and tested during the summer and fall aren’t anywhere near an intermediate or long-term bottom.”

Holloway says the market has another year or more of rough going, and that prices may head as much as 20% lower or more. If he’s right, today’s “bottom fishers” will be mauled. The Standard and Poor’s Index of 500 stocks could sink to 670 or lower, accompanied by a Dow Jones Industrial Average as diminished as 6300.

“Our forecast is based on a thorough examination of price and volume data going back to early 1982,” Holloway declares. “The model itself has been in development for 15 years. More recently we have enhanced our capabilities with sophisticated heuristics.”

What are heuristics, you might want to know?

“They’re brute force,” Holloway says. “The heuristics employed in The RLH Volatility Model enable data manipulation with all our myriad formulas and operations in thousands of combinations and permutations for each of the 500 stocks in the well known Standard and Poor’s database.”

### Of Mice and Stocks

Holloway loves his pet cat, Butt-noodle, and is fond of cat analogies when describing his views about business and finance.

“Let’s say Butt-noodle is roaming around the ‘back forty’ looking for mice,” he suggests. “If his hunting ground were all the stocks in the S&P 500, with our heuristics, he’d be able to search every square inch in an acre of land in real time. That’s what we do with every stock in our universe, one by one. The mice don’t have a chance.”

“We know our ‘back forty,’ ” Holloway concludes.

How reliable is Holloway’s mouse-hunting machine?

“The RLH Volatility Model was designed to reduce risk and enhance returns by creating a capability to construct fully market-neutral portfolios with the potential for attractive risk/reward ratios in all market environments—up, down and sideways. With equally weighted combinations of long and short positions,” Holloway explains, “the goal in up markets is for the longs to go up more than the shorts; in down markets, for the shorts to go down more than the longs.”

Does it work?

“Most of the time it does,” reports Holloway. “Our overall record in a year and a half of *beta* testing indicates the ability to produce median returns of 7% compound annually or better. “Our most recent hedge [shown below] was created just after the New Year and is currently returning 91.95% as we speak.”

longs	1.2.09.cl	# shares	booked	5-Feb-09 m.v.		+/-	%
AMGN	58.99	8,476	\$499,999	56.19	\$476,266	-\$23,733	-4.75%
CEPH	77.67	6,437	\$499,962	79.1	\$509,167	\$9,205	1.84%
CF	53.63	9,323	\$499,992	51.13	\$476,685	-\$23,308	-4.66%
CNX	32.15	15,552	\$499,997	29.65	\$461,117	-\$38,880	-7.78%
CVG	6.86	72,886	\$499,998	8.1	\$590,377	\$90,379	18.08%
DFS	9.51	52,576	\$499,998	7.13	\$374,867	-\$125,131	-25.03%
F	2.46	203,252	\$500,000	1.9	\$386,179	-\$113,821	-22.76%
FLR	47.89	10,441	\$500,019	38.72	\$404,276	-\$95,744	-19.15%
ITT	48.79	10,248	\$500,000	44.6	\$457,061	-\$42,939	-8.59%
MS	16.99	29,429	\$499,999	23.41	\$688,933	\$188,934	37.79%
			<b>\$4,999,964</b>		<b>\$4,824,926</b>	<b>-\$175,038</b>	<b>-3.50%</b>
shorts	1.2.09.cl	# shares	booked	5-Feb-09 m.v.		+/-	%
APOL	78.37	-6,380	-\$500,001	85.15	-\$543,257	-\$43,256	-8.65%
BBT	26.73	-18,706	-\$500,011	17.28	-\$323,240	\$176,772	35.35%
CBS	8.91	-56,117	-\$500,002	5.84	-\$327,723	\$172,279	34.46%
FDO	25.99	-19,238	-\$499,996	26.41	-\$508,076	-\$8,080	-1.62%
GAS	35.06	-14,261	-\$499,991	35.1	-\$500,561	-\$570	-0.11%
HSY	35.81	-13,963	-\$500,015	36.24	-\$506,019	-\$6,004	-1.20%
LEG	15.68	-31,888	-\$500,004	12.62	-\$402,427	\$97,577	19.52%
MMC	24.94	-20,048	-\$499,997	19.29	-\$386,726	\$113,271	22.65%
PBCT	17.79	-28,106	-\$500,006	17.02	-\$478,364	\$21,642	4.33%
ROH	64.76	-7,721	-\$500,012	54.44	-\$420,331	\$79,681	15.94%
			<b>-\$5,000,034</b>		<b>-\$4,396,724</b>	<b>\$603,311</b>	<b>12.07%</b>

start  
today  
days in

2-Jan-09

5-Feb-09

34

nominal	booked	5-Feb-09	m.v.	+/-	%	2.0	3.3	5.0
longs	\$4,999,964	\$4,824,926	-\$175,038	-3.50%	-7.00%	-11.67%	-17.50%	
shorts	-\$5,000,034	-\$4,396,724	\$603,311	12.07%	24.13%	40.22%	60.33%	
<b>total nominal</b>		<b>\$428,273</b>		<b>4.28%</b>				
<b>annualized</b>					<b>45.98%</b>	<b>91.95%</b>	<b>153.25%</b>	<b>229.88%</b>

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<http://stocksthatwiggle.com/2009outlook.aspx>