SELECTOR® Money Management
2010 First Quarter Review

In the first quarter of 2010, equities crossed the 1-year anniversary of the Bear Market lows seen on March 9, 2009. Equities had already made an incredible run from those lows and were looking tired. After pulling back sharply in January and February they proceeded to surprise with a sprint across the finish line that carried through the end of the quarter. The S&P 500 Index closed out the first quarter up +5.39%, the S&P Mid Cap 400 Index finished up +9.44%, and the Russell 2000 Index ended up +8.31%. From a global perspective, U.S. equities are back in leadership roles. This was verified as international equities, which had been considerably weaker than U.S. equities, reversed their declines and rallied in harmony through the close of the first quarter, albeit to lower levels. The MSCI Emerging Markets Index℠ finished the first quarter up +2.40%, the MSCI EAFE ended up +0.87%, and the S&P Europe 350 Index closed down -2.38%.

The strongest equity sectors of the first quarter were 'fallen angels' from the Bear Market of 2007-2009. Financial securities such as regional banks and insurance equities topped the list, along the real estate securities. The Dow Jones US Select Regional Banks Index was up +18.80%, the Dow Jones US Select Insurance Index was up +14.19%, and the Dow Jones US Select Home Construction Index was up +13.57%. All of these sectors remain significantly lower than their early 2008 price levels. The fact that this leadership has primarily been 'paroled but convicted felons' from the financial meltdown has kept a number of investors from embracing the rally.

The weakest performers of the first quarter were seen in selected European equities, especially financial securities, in domestic and international utilities equities, and most interestingly, in clean energy stocks. This in quite an interesting study in contrasts. U.S. financial stocks were decidedly the strongest sector while their European cousins were the weakest. The normally-defensive utilities sector was notably unpopular while securities that were associated with the financial meltdown in 2008 rallied sharply. And finally even as oil prices climbed back over $85 a barrel, alternative energy stocks sank into the role of being the worst-performing sector. The MSCI Europe Financials Index finished the first quarter down -3.99%, the S&P Global Utilities Sector Index was down -4.44%, and the S&P Global Clean Energy Index fell -14.64%.

Bond markets were much less volatile in the first quarter of 2010, benefitting from inflows as conservative investors sought safe haven after a tumultuous stock market in 2009. High yield bonds continued to advance with equities, though much quieter than the previous year. Short to intermediate-term bonds were steady performers, as were municipal bonds and high quality bonds. Weakness started setting into inflation sensitive bonds late in the quarter. The worst performing bond sectors were long-term U.S. treasuries and international treasuries. The iBoxx $ Liquid High Yield Index was up 3.01% for the quarter. The Barclays Capital U.S. Intermediate Credit Bond Index was up +2.05% and the Barclays Capital U.S. Aggregate Bond Index was up +1.78%. On the negative end, the Barclays Capital U.S. TIPS Index was down -0.31%, the Barclays Capital U.S. 20+ Year Treasury Bond Index was down -1.06%, and the S&P International Treasury Bond Index Ex-U.S. 1-3 Year was down -2.97%.

In the first quarter of 2010, SELECTOR® Money Management elected to take the more conservative path. As markets rebounded in February we closed out positions in international equities and basic materials equities, adding to allocations to high quality bonds. The upside to this approach was reduced volatility. The downside was reduced exposure to upside potential. Given the equity market's short-term overbought condition, we are currently well-positioned to take advantage of a market correction. We are prepared to take advantage of opportunities in the new leadership that has developed in the past few weeks. One of the hallmarks of a Bull Market is how it seeks to frustrate potential buyers with limited opportunity to invest at lower prices. And one of the traits of successful investors is the patience and foresight to take advantage of those opportunities. SELECTOR® Aggressive Growth models are currently 80% equities/20% bonds. SELECTOR® Growth models are 60% equities/40% bonds. SELECTOR® Conservative Growth models are 40% equities/60% bonds, SELECTOR® Balanced Growth models are 20% equities/80% bonds, and SELECTOR® Income & Growth models are 100% bonds.

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