



## Monthly Commentary

February 21, 2010

*“Good investors gather information, put that information into current and historical context, then make sound decisions.”*

### **Last month we discussed the ‘January Barometer.’**

As of January 19<sup>th</sup>, the day the January Monthly Commentary was written, the S&P 500 was up +3.15% for the month. Interestingly, that day proved to be the January high. Equity markets dropped six of the next eight trading days and January ended with a decline of 41.23 points for the S&P 500, or -3.70%. So much for that ‘first robin of Spring.’ It should be noted that the January Barometer was also negative for 2009, which turned out to be a dramatically positive year for equities. Fortunately, effective portfolio management rarely relies on widely publicized indicators. It requires diligence and hard work. And 2010 looks to be another interesting year for investors.

**A rather sharp but short correction ensued for the next two weeks following the January high, taking the S&P 500 down -7.30% in just 13 days.** The cathartic, reversal day was February 5<sup>th</sup>, when the S&P 500 dropped by -19.62 intraday before rallying into the close for a gain of +3.08 points. Equity markets were dramatically oversold at that juncture, and proceeded to rise for six of the next eight sessions. When the dust settled, the S&P 500 was resting right on its 50-day moving average of 1109. Quite a little rollercoaster ride.

**Corrections and reversals in effect, ‘step on the clutch’ of the prevailing trend, and this pause has given us the opportunity to ‘tune up’ our asset allocations.** On the strength of this reversal, SELECTOR<sup>®</sup> is making portfolio shifts in response to some longer-term issues. One issue commanding our attention has been the new-found strength of the U.S. Dollar. It has now rallied +8.55% from its November 25<sup>th</sup> lows, broken a long-term downtrend, crossed both its 50 and 150-day moving averages, and is clearly on a mission. The U.S. Dollar’s strength has put a strong ‘wind in the face’ of international equities. We sold emerging markets equities in late November, and are now selling all remaining international equities from managed portfolios. We are also taking profits in basic materials equities, which were very strong performers in 2009, but now quite volatile.

**We continue to like mid cap equities, which are providing rather solitary leadership for equities in 2010.** Bonds continue to be the best performers for the year and we are adding to bond allocations in all managed portfolios. We do believe that the long-term Bull Market is intact. However, a strong measure of prudence is now indicated, and we are acting accordingly. SELECTOR<sup>®</sup> model portfolios are now emphasizing equity allocations into mid cap equities, as well as high quality, short-intermediate term bonds. SELECTOR<sup>®</sup> Growth model portfolios are now being adjusted to 60% equities/40% bonds. SELECTOR<sup>®</sup> Conservative Growth model portfolios are moving allocations to 40% equities/60% bonds, with SELECTOR<sup>®</sup> Balanced Growth models shifting to 20% equities/80% bonds. SELECTOR<sup>®</sup> Income & Growth models are now 100% bonds.

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**Periodic corrections are normally occurring consequences that stem from the psychology of investing.** Financial markets are ultimately driven by human psychology. Investors, even institutional investors, get excited, scared, comfortable, then surprised. As a result, financial markets become personified as they overreact, under-react, get enthused then discouraged. Some believe that advances in technology can eliminate these responses, but in reality they sharpen and intensify them. These nuances underscore the value of maintaining an experienced, professional perspective during transitional markets.

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Sources: Bloomberg, Marketwatch.com, StockCharts.com, Standard & Poor’s, Wall Street Journal, iShares.com, Stock Trader’s Almanac 2010.