

January 19, 2012

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

First of all, we are happy to report that with the help of dividends, the S&P 500 did indeed uphold that 70-year old tradition of closing higher during the third year of the U.S. Presidency. It was close. The dividend yield of the S&P 500 is 2.2%. The 2011 year-end gain for the S&P 500 was 2.1%. Still, it will go into the record books as a winner. Most other domestic equity indexes were not so fortunate. International equity indexes were dramatically lower for the year. And bond markets enjoyed surprisingly good performances in 2011. Now it is time to see where we go from here.

Those of you who have been reading my Commentaries over the years will remember the two January Barometers. These early indicators have remarkable track records since 1950. The first of these barometers looks at the first five trading days of the new year. From 1950 to 2011, the S&P 500 has gained ground the first five days of January 38 times. Full year gains followed in 33 of the 38 years, for an accuracy level of 86.8%. Not bad. In the remaining 23 years when the S&P 500 finished the first five days of January lower, full year results were 12 positive and 11 negative, which is pretty much a coin toss. The first five days of January, 2012, the S&P 500 was up +1.8%. By the way, the first five days indicator has a 13-2 record during presidential election years, which is exactly the same ratio.

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The second of the January Barometers looks at the full month of January. Interestingly, it has an even better confirmation ratio. When January is a gainer, the full year has been a gainer 88% of the time. And when January has been a loser, the full year has been a loser 56% of the time. In other words, the January barometers are pretty good at predicting good times, but not very good at predicting bad times. As of yesterday's close the S&P 500 was up +1.13% YTD. We will give you a report in February's Monthly Commentary on what this second January Barometer had to report.

SELECTOR® allocations remain conservative since we elected to move away from the 'risk on trade' the end of December. The 'risk on trade' refers to when an investor is exposing their portfolio to market risk by investing in

securities which may increase or decrease in value. The investor is assuming risk in the hopes of being rewarded. Of course, there are no guarantees that one will be rewarded, or even punished by a 'risk on trade.' There is just the reality that the risk is present. In contrast, there is the 'risk off trade' which refers to when an investor chooses to reduce the potential market risk by investing in securities that have very little volatility, such as money markets or short term bonds. After a very volatile 2011, and a favorable rally in December, we opted for a very conservative 'risk off trade.'

Domestic equity markets have been behaving themselves thus far in 2012. The S&P 500 has recorded ten positive days versus only two negative days. Over the past month, the S&P 500 had fifteen positive days versus five negative days, while gaining +9% without a significant correction. International equity markets have also been gaining ground in 2012. This is generating some cautious optimism after a year which many characterize as being brutal. This positive action is serving to heal the wounds incurred in 2011 for many market sectors. The fact that these advances have been occurring without excessive market volatility is also encouraging.

Bond market results thus far have also been positive for most sectors. The Barclays Capital Emerging Markets Bond Index is up +2.54%, S&P National Municipal Bond Index is up +2.21%, Barclays Capital TIPS Index is up +0.89%, and the Barclays Capital U.S. Aggregate Bond Index is up +0.27%. The only bond indexes in negative territory are long-term government bond indexes that are still seeing profit-taking after a very strong and surprising rally in 2011.

SELECTOR® Aggressive Growth and Growth models are currently 40% domestic equities, with no international equities. High quality bonds and money markets comprise the other 60% of these model portfolios. **SELECTOR® Conservative Growth and Balanced Growth models** are now 20% domestic equities with 80% high quality bonds and money markets. **SELECTOR® Income & Growth and Income models** are 100% invested in high quality bonds and money markets. The barometers and the trends are promising thus far. This could be a very interesting year.

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