Monthly Commentary

January 19, 2010

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

The predictive accuracy of the 'First Five Days of January' is one of the stock market's most widely-accepted and recognized predictive indicators. Simply stated, when the first five trading days of January show a net gain, the following year should show a net gain. This indicator has had an accuracy ratio of 86.1%, occurring 31 of the last 36 times that the first 'First Five Days' have been positive, with an average annual gain of +13.7% in all 36 years. For 2010, the first 5-day change for the S&P 500 was a gain of 29.88 points, or +2.67%. So far, so good. The potential fly in the soup could be that this is also a midterm election year. In the last 15 midterm election years, only seven have fulfilled the 'First Five Days' prophesy.

Even more accurate is the 'January Barometer.' Once again, simply stated, as the S&P 500 goes in January, so goes the year. This indicator has registered only five major errors since 1950 for an accuracy ratio of 91.5%. When you factor in the ten flat years that had net changes of less than plus or minus 5%, the accuracy is still 74.6%. The jury is still out for the entire month of January, but as of today's close, the change for the S&P 500 has been a gain of 35.13 points, or +3.15%. Even with the somewhat contrary impact of mid-term election years, the full-month January Barometer still has an accuracy ratio of 66.7%.

Of course, one cannot invest directly into a broad market index. The real opportunities rest in those market sectors which are most heavily influencing the broad market's performance. It is the recognition and the timely implementation of the best performing sectors that separates the most skilled investment advisors from the rest of the pack. While it is still too early to effectively discern the leadership sectors for 2010, we remain diligent and confident that significant separations in performance will be evident in the course of the 1st quarter. Our efficient response to that separation will set the pace for the first half of 2010.

Bond markets are all showing consistently positive numbers thus far in 2010 after mixed performances in 2009. High yield bonds continue to attract attention and are trending upward. High quality bonds are settling into trading ranges across the maturity curve, implying that they may be satisfied to wait out the midterm elections at current levels. Inflation remains more of a threat than a reality and the Federal Reserve insists that rates will remain low for the foreseeable future. All eyes are now upon the U.S. Dollar and its strength versus other global currencies. A strong U.S. Dollar would lend stability and strength to bond prices, in addition to potentially having a negative impact on returns for international equities.

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SELECTOR® model portfolios continue to emphasize equity allocations into basic materials, technology, mid cap, and large cap growth equities. SELECTOR® Growth model portfolios are 80% equities/20% bonds. SELECTOR® Conservative Growth model portfolios include 60% equities/40% bonds, with SELECTOR® Balanced Growth models 40% equities/60% bonds. SELECTOR® Income & Growth models are 20% equities/80% bonds. These allocations are all modestly over weighted in bonds, pending our identification of developing leadership sectors for 2010.

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