

July 18, 2011

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

**In the last month the DJIA climbed 878 points in 2 weeks to within 1% of the best prices we have seen in this Bull Market, before falling 368 points the past two weeks.**

One month ago the DJIA had just completed a 6-week, 1,000 point fall, reversing a 6-week, 1,320 point rise, that reversed a 4-week, 835 point fall. Watching equity prices the last several months have been like watching my chickens scurry back and forth across their coop. In a big hurry to get to the other side, then in a hurry to head back the other way, but simply retracing the same ground. At today's close, the DJIA stood at 12,385.16. Exactly five months ago on February 18<sup>th</sup> the DJIA closed at 12,391.25. That's a lot of scurrying for a net move of only 6 points, or 0.049%.

**So what's got equity markets all cooped up?** It's called a trading range, not to be associated with free-range, and I will cease my chicken analogy at this point. A trading range occurs when prices oscillate between two levels, with the top level called Resistance. Resistance refers to price resistance that seems to prevent prices from traveling higher, and would probably more accurately be called Reluctance. The buyers become reluctant to pay higher prices at some level, allowing sellers to bring prices down to levels that the buyers find more reasonable. When buyers reemerge, prices rise once again until they approach levels that once again trigger the reluctance. Each time, buyers are reminded that this is where they sold, or could have sold, during the last trip and the resistance is reinforced.

**The lower level of a trading range is called Support.** Support refers to the price support that materializes when buyers are once again attracted to a security. There are several of types of support that can prop up prices. Rising moving averages can present pricing levels that may attract buyers' interest. As prices climb higher, market technicians track the price averages over trailing periods of time, knowing that institutional/professional investors calculate their average costs and make subsequent purchases systematically. Trendlines are another type of support in rising markets. Once again, market technicians calculate the security's rate of increase over time, or slope. This trendline may represent price levels that attract institutional/professional interest as they dollar-cost-average their purchases over time.

**Trading range support has a different psychology.** The approach is not about buying securities at progressively higher prices, but at prices that are essentially the same. The trendlines and moving averages that powered prices higher

may be compromised, or even broken. But the prices stick at a certain level rather than capitulate. Trading range support could probably more accurately be called Persistence. Price persistence occurs at levels that attract buyers who may have missed an opportunity to purchase earlier, or wanted to purchase more. When these buyers see prices return to certain levels, then stick and turn higher, their buying confidence grows. The next time prices approach those same levels, they may buy with even greater persistence and confidence, reinforcing the support, and a trading range is born.

**Once developed, trading ranges can persevere for several months.** Trading range markets are actually quite common occurrences for equity markets during the Summer. They do impact our tactical allocation strategy. While our overall model allocations continue to be bullish, we may seek to take advantage of opportunities to sell certain securities at the resistance levels, and temporarily build cash levels with the intent of buying other securities near support. We recently executed that strategy with energy and small cap value equities, selling them on strength in selected portfolios.

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**As a result, while we remain long-term bullish, asset allocations may vary significantly depending upon the specific portfolio.** SELECTOR<sup>®</sup> Aggressive Growth and SELECTOR<sup>®</sup> Growth models may currently range from 70-100% equities, with the balance in money markets. SELECTOR<sup>®</sup> Conservative Growth models may be 60-80% equities/20% bonds, with the balance in money markets, and SELECTOR<sup>®</sup> Balanced Growth models may be 50-60% equities/40% bonds, with the balance in money markets. SELECTOR<sup>®</sup> Income & Growth models may be 30-40% equities/60% bonds, with the balance in money markets. SELECTOR<sup>®</sup> Income models are 100% invested in bonds.

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