

**June 14, 2010**

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

After the Flash Crash in May, equity markets have taken on the sizeable project of reestablishing a foundation that may allow prices to regain their April levels. The first job is to rebuild the technical footings. Not unlike any major construction project this involves pounding down to bedrock, or in this case to bedrock prices that institutional investors will steadfastly defend. For the Dow Jones Industrial Average, this now looks to be the range between 9,800 and 10,300. For the S&P 500 this bedrock level appears to be developing between the 1,050 and 1,100 price levels. As equities travel in these 5% ranges, confidence may increase until a breakthrough to higher prices is successful. And conversely, should equities breakdown below these ranges, that confidence would be expected to rapidly erode as well.

A notable difference between the current price movements of equities and bonds is that equities are pounding out a new base and, almost by necessity, are louder and more violent, translating into high volatility. Bonds on the other hand are quite content to quietly build their nests in a more tranquil manner. The only bond sectors that are in negative territory YTD are international Treasury Bond Indexes, understandably disturbed by the poor action of the Euro and the European debt crisis. Meanwhile the U.S. Treasury Bonds are up from +4% on the short end to over 10% on the long end. The Barclays Capital U.S. Aggregate Bond Index is up +4.16% YTD, and the Barclays Capital U.S. TIPS Index is up +3.34% YTD. Interestingly, the Barclays Capital U.S. 20+ Year Treasury Bond Index, which had been the weakest bond sector earlier in the year, jumped +9.81% in just the last 3 months, and now rests +10.62% YTD. A good example of the old saying, if everyone put all of their troubles on the table, most of us would be quick to grab ours back.

**Bond prices have taken on a different, albeit loftier project.** During the Flash Crash, bond prices soared as investors retreated to perceived safe havens. In the course of that sharp move upward bonds broke through resistance and have since established a higher price range. This process also involves advance and retreat activity. When breakouts occur, what was once resistance becomes support. Of course the strength of the U.S. Dollar versus foreign currencies has played a large part in the strength of the domestic bond market. While we see no short or intermediate term solution to the European debt crises, we summarily see little to no weakness in the U.S. Dollar. Until evidence mounts that higher interest rates and/or inflation are knocking on the door, bond prices should continue to enjoy favorable winds.

**This high volatility in equities can be distracting, but we are still seeing signs of leadership.** Real estate securities had certainly made their mark prior to the commotion in May and they are now emerging as ongoing market leaders. The Dow Jones U.S. Real Estate Index is up +5.13% for the last 3 months, and up by +11.53% YTD. The Dow Jones U.S. Select Regional Banks Index is down -2.71% for the last 3 months, but still up +13.00% YTD. Small cap and mid cap equities have also been quick to right their respective ships. While the Morningstar Small Value Index is down -3.21% over the last 3 months, it is up +6.65% YTD. The S&P Midcap 400 is down by -2.72% over the past 3 months, but up +5.05% YTD. For reference purposes, the S&P 500 dropped by -4.64% over the past 3 months, and is now down -1.21% YTD. And to demonstrate that weakness begets weakness, the S&P Europe 350 is down -11.71% for the last 3 months and is -14.10% YTD.

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**SELECTOR® asset allocations remain on the cautious side of the table, although we continue to maintain the existence of our long-term Bull Market for equities.** Current equity positions reflect the strongest performers YTD, and include small cap equities especially small cap value, mid cap equities, and REIT real estate equities where available. Our caution is evidenced by the ongoing presence of an extra 20% portfolio composition of high grade bonds in all of the SELECTOR® model portfolios except Aggressive Growth. SELECTOR® Aggressive Growth model portfolios are now 100% equities, while SELECTOR® Growth portfolios are 80% equities/20% bonds. SELECTOR® Conservative Growth portfolios are 60% equities/40% bonds, with SELECTOR® Balanced Growth models 40% equities/60% bonds. SELECTOR® Income & Growth models are 20% equities/80% bonds.

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