



## Monthly Commentary

March 19, 2010

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

**The last four weeks have been surprising, and in a positive way.** Mid cap stocks had been showing relative strength since the start of the year, so their breakout the second week of March was pleasant but not unexpected. The big surprise came from small cap stocks. After dropping -9.5% in a sharp 3-week January/February sell-off, the sector registered gains in 22 of the next 26 sessions, gaining +16.7%. The Russell 2000 Index is now +9.64% YTD. The S&P MidCap 400 Index is up +9.43%. These light-weight and middle-weight sectors plowed the way for their large cap brothers who coasted into 2010 high ground last week. The S&P 500 is now +4.55% YTD. This positive action in domestic equities also served to bolster international equities. For the time being, equity markets have stabilized around the globe.

**Bond markets also demonstrated resilience over the past four weeks.** High quality, high yield, TIP's, short-term, and even long-term bonds have performed steady to strong over this period. The numbers are modest, but year-to-date, 30 of the 32 fixed income sectors that we follow are in positive territory. The Barclays Capital U.S. 10-20 Year Treasury Bond Index is +2.91% YTD, the iBoxx \$ Liquid Investment Grade Index is +2.72% YTD, and the iBoxx \$ Liquid High Yield Index is +2.64% YTD. Only the S&P International Treasury Bond Index Excluding the U.S. (-1.35% YTD) and the S&P International 1-3 Year Treasury Bond Index Excluding the U.S. (-1.90%) are negative. Credit the strength of the U.S. Dollar.

**‘Fallen angels’ are at the top of the equity sector leader board, including financial stocks and real estate securities.** The Dow Jones US Select Regional Banks Index has shot up +18.73% YTD, and the Dow Jones US Select Insurance Index is +12.15% YTD. These sectors are still dramatically below their early 2008 price levels. Real estate securities, also far below their 2008 levels, have surged with the Dow Jones US Select Home Construction Index +14.56% YTD and the Dow Jones US Real estate Index +10.32% YTD. Another now-strong sector leader has been the health sciences stocks, which have been battered, then beloved, depending on whose health care legislation appears to have the upper hand. Interestingly, the weakest sector year-to-date is the politically charged clean energy stocks. They appear to have been abandoned by political forces who have opted to rally around the health care and jobs issues. The S&P Global Clean Energy Index is down -15.91% for the year, even as oil prices have advanced over \$82 a barrel.

**It is still early in the year and while managed account total returns are not intoxicating, they are positive.** The most encouraging recent developments have been the overall stabilization of financial markets, both domestically and internationally. We have seen equity market leadership spread beyond the mid cap stocks into small cap, and now large caps. Even though domestic equity markets are short-term overbought, now there is room for comfortable and constructive pullbacks. That certainly wasn't the case just one month ago, when caution was the watchword. From a fundamental perspective, there still appear to be as many questions as answers. However, financial markets generally do not fear the devils they know as much as the devils they don't know.

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*“There is plenty of time to take advantage of good opportunities.”*

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**SELECTOR<sup>®</sup> asset allocations are more conservative than normal for a long-term Bull Market.** Last month we erred on the side of caution as we reduced positions in basic materials and international equities, adding intermediate-term high quality bonds in lieu of equities. One good month does not a market make, but should we see added breadth and healthy confirmations of the recent breakouts, our confidence would grow. There is plenty of time to take advantage of good opportunities. SELECTOR<sup>®</sup> model portfolios are currently emphasizing allocations into high quality intermediate-term bonds, in addition to mid cap and large cap equities. SELECTOR<sup>®</sup> Growth model portfolios are 60% equities/40% bonds. SELECTOR<sup>®</sup> Conservative Growth model portfolios are 40% equities/60% bonds, with SELECTOR<sup>®</sup> Balanced Growth models 20% equities/80% bonds. SELECTOR<sup>®</sup> Income & Growth models are now 100% bonds.

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