

November 22, 2011

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

October proved to be a surprisingly good month for equities, in spite of the very first trading day when prices spiked downward in alarming fashion before reversing higher. In fact, there were only six negative trading days for the S&P 500 in October, with fourteen positive days. In November, equity markets finally took a break after that exhausting October run. Thus far, November has seen equities once again trading lower. From a technical perspective, it would be healthy for these markets to settle back and build a launching base after becoming so extended in October. The high volatility that has affected equities since August is persistent. In last month's Commentary we referenced the compression that was driving prices during the months of August and September and that markets appeared to be 'in a hurry' to build a base. While October's price action was more positive, a little more time spent base-building, especially at higher levels than those seen during the third quarter, would be constructive.

Last month we discussed the impressive string of victories for the S&P 500 during the third year of every U.S. President since 1940. With only five weeks left in 2011, the S&P 500 is now at 1192.98, down -3.60% for the year, after closing 100 points higher at 1284.59 on October 27th. November is proving to be a spoiler thus far, but we need to remember that the S&P 500 rallied over 16% higher in October. The November to January period is historically the strongest seasonal period for equities, and the 'Third Year In Office Gain Record' for the S&P 500 remains within reach. The technical picture for equity markets does continue to look very sloppy, so while maintaining the seventy year old tradition is a desirable event, it could occur and yet leave considerable room for improvement for 2012.

Domestic bond markets continue to trade within a range that is supported by long-term trendlines and moving averages. International bonds are considerably less stable. High yield bonds have also been vulnerable to the excessive equity market volatility, and our high yield bond positions were sold during the October rally. Treasury Inflation Protected Securities (TIPS) and short to intermediate-term government and corporate bonds remain attractive and are being included in SELECTOR[®] bond allocations. Bond markets continue to provide relative stability to our managed portfolios and their role may be expanded as we move into the coming election year.

SELECTOR[®] asset allocations were adjusted in October during that remarkable rebound rally in equities. We have elected to take a more cautious road for the time being, adding bonds to all management styles and reducing selected equity positions. Managed portfolios continue to hold large cap value, technology, basic materials, and health care equities. In October we sold real estate, oil & gas, large cap international, small cap and mid cap domestic equities. As previously mentioned, we also sold positions in high yield bonds, which were replaced with investment grade bonds. TIPS bonds have been added to certain managed portfolios. All SELECTOR[®] asset allocations are more conservative than during the first nine months of the year.

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SELECTOR[®] Aggressive Growth and Growth models now include 20% bond allocations. These bonds may be either U.S. Treasury Inflation Protected (TIPS) bonds or high quality short-intermediate term corporate bonds. SELECTOR[®] Conservative Growth models have been adjusted to include 40% bonds. SELECTOR[®] Balanced Growth models are now 60% bonds, and SELECTOR[®] Income & Growth models include 80% bond allocations. SELECTOR[®] Income models remain 100% invested in bonds. We are holding markedly higher money market balances in many accounts as we carefully gauge the risk/reward opportunities going forward.

This has been a year of trading ranges, with a trap door and some high volatility thrown into the mix the past few months. We continue to look for opportunities to grow client portfolios, and trading range markets can be profitable as long as support levels hold fast. The addition of high quality bonds should help manage portfolio volatility. From a seasonal perspective, we do have a historically good precedent over the year-end holiday seasons and into January.

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