Monthly Commentary

October 19, 2011

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

September was a 'testy' month. The first two weeks of September equities twice tested the upper resistance of the new trading range that has developed since the July/August break, which equates to 11,600 on the DJIA (Dow Jones Industrial Average.) The last two weeks of September equities twice tested the bottom support of that range, at 10,600 for the DJIA, ending the month and the quarter very near that support. It was classic base-building, which we discussed in last month's Monthly Commentary.

October opened in a cruel fashion with equity prices piercing that support sharply before reversing midday and finally closing higher. During the next two weeks we saw a surprising rally that quickly took prices back to the top of the trading range. Now, if all of this 'up and down' sounds confusing, you are absolutely correct! We have witnessed nine complete market reversals in nine weeks, and quite frankly it is starting to wear on the nerves of even the most seasoned professionals. Base-building is normally not this frenetic. It is almost as if equity markets are in a hurry to get this part of the reconstruction done so they can move on to the next phase.

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The clock is truly ticking loud for equities as we approach the last ten weeks of 2011. You may recall from the December 2010 **SELECTOR®** Monthly Commentary that since 1940 the S&P 500 has risen during the third year of every sitting U.S. President, regardless of their political affiliation or the state of the nation's economy. As of today's close the S&P 500 was at 1209.88. It started the year at 1237.57. That's only a difference of about minus 2%, not much of a hurdle given the market volatility we have been experiencing the last nine weeks. We have ten weeks left to continue this legacy.

This has been a year of two trading ranges. The first trading range contained prices for seven full months. Our current trading range has been much more compressed and volatile and has lasted for ten weeks. Perhaps this compression can serve as a springboard for higher prices into the end of the year. It is also possible that the tremendous energy consumed and absorbed by equity markets the last couple of months may leave it fatigued during the fourth quarter of the race.

Bond markets continue to be the most consistent performers for 2011. This is especially true for high quality bonds such as U.S. government bonds and high quality corporate bonds. The relative weakness and high volatility of equities markets have taken their toll on the high yield bond sector. TIPS bonds have stepped into leadership positions, in spite of the lack of measurable inflation by federal standards. The best performing bond sector of 2011 continues to be the highly suspect and price-volatile long-term U.S. government bonds. Money market rates continue to be minimal.

SELECTOR® model allocations are currently being adjusted to reduce exposure to equities and increase exposure to bonds. SELECTOR® Aggressive Growth and Growth models are shifting to 80% equities/20% bonds. These bonds may be either U.S. Treasury Inflation Protected (TIPS) bonds or high quality short-intermediate term corporate bonds. **SELECTOR®** Conservative Growth models are going to 60% equities/40% bonds. **SELECTOR®** Balanced Growth models are moving to 40% equities/60% bonds, and **SELECTOR®** Income & Growth models to 20% equities/80% bonds. **SELECTOR®** Income models remain 100% invested in bonds. We are selling high yield bonds at these levels in favor of high quality bonds for all management styles. In the equities portions of SELECTOR® model allocations we are reducing exposure to the energy sector, as well as to Small Cap and MidCap equities. International equities and real estate equities (REIT's) positions are under review. We continue to favor large cap, health care, and technology sectors.

We remain positioned to take advantage of a year-end rally for equities. That being said, we understand that we may be muting our response to a closing rally as we attempt to manage short-term equity market volatility. On the other hand, the increased bond exposure will hopefully 'smooth the ride' as we make our final approach to the 2011 landing.

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Sources: Barrons, Bloomberg, iShares.com, Marketwatch.com, Stock Trader's Almanac 2011, StockCharts.com.