

April 19, 2011

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

Japan and the Middle East, last month’s handholds in the market’s ‘wall of worry,’ are this month’s footholds.

Equity markets successfully climbed to match the February highs before settling back down the last couple of weeks. Essentially this has shifted equities’ primary range of motion from an ascending trend to a sideways holding pattern. Holding patterns, also known as trading ranges, are not uncommon within the context of a Bull Market. In fact, they tend to become ‘equalizers’ as lagging market sectors have an opportunity to catch up with the leaders. This trading range is substantially higher than the last trading range, indicative of the markets’ five month push since last September. That trading range had contained the S&P 500 within a 1010 to 1130 zone. Our current trading range has the S&P 500 corralled between 1250 and 1345, about 20% higher.

Year-to-date, the S&P 500 is now up +4.34%, the S&P MidCap 400 Index is up +6.90%, and the Russell 2000 Small Cap Index is up +5.16%. That’s a pretty close race, and consistent with the overall equity market action thus far. Internationally, the S&P Europe 350 is up +6.10%, rebounding nicely after the Japan quake. Even emerging markets equities, which were firmly in negative territory prior to the quake, got swept higher in the global rebound. After enjoying the globally sympathetic rally, the MSCI Emerging Markets Index is now up +1.44% for the year.

Commodity-related equities are the best performing sectors year-to-date. The London Silver Fix Price is +39.70%, far outshining gold as the London Gold PM Fix is up +6.23% for the year, but still hitting record highs. The Dow Jones US Select Oil Equipment and Services Index is up +13.64%, and the Dow Jones U.S. Oil & Gas Index is up +12.11%. A relative newcomer to the leader board, and a non-commodity sector which is enjoying a strong year, is the healthcare industry. The Dow Jones US Select Healthcare Providers Index is +12.69%, the Dow Jones US Select Medical Equipment Index is +11.58%, and the Dow Jones US Health Care Index is +7.69%. The worst performing sectors thus far are the S&P Global Nuclear Energy Index, down -7.04%, and the Dow Jones US Select Regional Banks Index, down -2.92%. As may be expected, the MSCI Japan Index is down -8.94% year-to-date.

Bond prices continued their stabilization and, after a brief pullback the end of March/early April, they are higher across the board. The best performing bond sector continues to be high yield bonds. The iBoxx \$ Liquid High

Yield Index is now up +4.64% year-to-date. They are closely followed by the Barclays Capital US TIPS Index, up 3.86%. The Barclays Capital Aggregate Bond Index is up +1.14%. Once again, the only bond index in negative territory is the Barclays Capital U.S. 20+ Year Treasury Bond Index, down -0.53% for the year.

We find it necessary to make a brief remark on inflation. The United States Bureau of Labor Statistics has its own definition of inflation, which translates as the Consumer Price Index (CPI). Core Inflation is of particular interest to the Federal Reserve, which is the CPI excluding food and energy prices, (and apparently also healthcare costs and the costs of education.) They do include about 40,000 other items. The Federal Reserve also ‘trims’ the CPI, reducing the effect of the biggest movers. By their calculations, as long as you do not eat, drive, incur medical expenses or are educating someone, inflation is not a problem. This is called ‘data management.’ No one does it better than the US Government.

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SELECTOR® asset allocations are currently fully allocated into equities within the constraints of the various styles of management. These equity allocations emphasize large cap, mid cap and small cap equities, in addition to European, energy, real estate, and technology equity sectors. Bond allocations emphasize high yield bonds and intermediate-term, high quality bonds. **SELECTOR®** Aggressive Growth and **SELECTOR®** Growth models are 100% invested in equities. **SELECTOR®** Conservative Growth models are 80% equities/20% bonds. **SELECTOR®** Balanced Growth models are 60% equities/40% bonds while **SELECTOR®** Income & Growth models are 40% equities/60% bonds. **SELECTOR®** Income models remain 100% invested in bonds.

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