Monthly Commentary

SELECTOR
Real-Time Money Management

April 19, 2012

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

As compelling a story as 2011 was for equity markets it's time to put it to bed and move on to the year at hand. After a surprisingly good first quarter equities finally gave way to their first correction of the year the first week of April. It was a mild correction, with the S&P 500 declining -3.80% over five consecutive days before finding support at the rising trendline. Virtually every major market index that we follow, domestic and international, declined in concert with the S&P 500, and all held fast at either a rising trendline or an established support level. We feel that a broad, mild correction after the broad, mild advance of the first quarter is a constructive event, consistent with the general theme for equity markets, and a positive indicator going forward.

Interestingly, the only market sectors that are not currently developing constructive technical patterns are gold, silver, and basic materials. This is another indicator of the overall psychology of financial markets, as capital continues to flow into traditional investment vehicles, and not into the 'fear and loathing' defensive sectors such as precious metals. When you couple the breadth of the equity markets' advances thus far in 2012 with the absence of a defensive hedge play you can get a real sense of the underlying power and direction of the markets. Its all good.

Bond markets are also enjoying 2012 after they underwent their own correction in March of this year. That correction was also mild and broad, with the Barclays Aggregate Bond Index pulling back -1.8% to a rising trend-line a rising 50-day moving, and an established level of support. From that point it turned and returned right back to its previous highs. Just as the equity market advances have demonstrated excellent breadth, so have the bond markets. Investment grade corporate bonds, high yield, TIPS, and municipal bonds are performing well. Even U.S. Treasury bond markets have firmed up and stabilized. Interest rates remain low. Inflation prospects remain low. This is a good for bond markets.

Since 1950, April has been the best performing month for the Dow Jones Industrial Average (DJIA) with an average +2.0% gain. April has been the second-best month for the S&P 500. April of 1999 was the first month ever to gain 1000 DJIA points. The last six Aprils have all been winners, with an average gain for the month of +4.2%, however, April's have been quieter during election years with an average gain of +0.8%.

Another interesting historical reference and possible prognosticator for equity markets is how they have behaved during the last seven months of a Presidential election year. Since Eisenhower's first term in 1952, the S&P 500 and the DJIA have had positive performances during the last seven months of an election year in thirteen of the past fifteen years. That's an 86.67% occurrence ratio. Going back even further to 1928, the DJIA has had positive performances in seventeen of twenty-one Presidential election years. That's an 80.95% occurrence ratio. It didn't matter which party won. One of those breaks was Clinton's first term in 1992, but his second term election year saw very good equity markets. The most recent break was Obama's first term in 2008.

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With such a target-rich environment for financial assets we are now fully invested in equities within the asset class constraints for the various management styles. We are particularly interested in developed international and emerging markets equities. Developed international equities, which primarily includes Europe, have been lagging domestic equities as they work to resolve the debt issues of the 'five little PIIGS', Portugal, Ireland, Italy, Greece, and Spain. Emerging markets have been particularly responsive as the U.S. and Europe economies continue to strengthen. Domestically, we favor small and mid cap, as well as real estate securities.

SELECTOR® Aggressive Growth and Growth models are currently 100% invested in domestic and international equities. **SELECTOR®** Conservative Growth models are now 80% equities/20% bonds, and **SELECTOR®** Balanced Growth models are now 60% domestic and international equities/40% bonds. **SELECTOR®** Income & Growth is 40% equities with 60% bonds, and **SELECTOR®** Income models are 100% invested in bonds.

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