Monthly Commentary

February 21, 2011

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

We are now but seven weeks into the year and virtually every domestic equity index that we follow is in positive territory. The domestic market leaders from the fourth quarter of 2010 are all back on track, with mid cap and small cap leading the way. Large cap equities are trailing right behind. It doesn't appear to matter very much whether the style is growth or value. They are all walking arm in arm. For example, the S&P MidCap 400 Value Index is +8.69% and the S&P MidCap 400 Growth Index is +8.17%. The Russell 2000 Small Cap Growth Index is +7.20% and the Russell 2000 Small Cap Value Index is +6.05%. And finally the S&P 500 Growth Index is +6.06% and the S&P 500 Value Index is +8.13%. It looks like everybody has been invited to the party.

It is rare that we see an advance that is so broad, so steady, and yet so muted. U.S. equity funds have seen inflows at the rate of nearly $5 billion a week for the past six weeks. The S&P 500 index has closed higher than it opened for an unusual 12-day streak. Bloomberg reports that the market advance since July 2nd has been the longest in which the markets rose at least 30% and has had so few 1% dips along the way. Only 13. There hasn't been a day in which 90% of trading volume was either in rising or falling stocks since Dec. 1, 2010, the longest stretch since the quiet market of late 2006/early 2007. Equity markets have not experienced a 5% drop for over 120 days. Market advances such as this are not unprecedented, but they are uncommon. Pullbacks will take place at some point. But it sure has been a smooth ride so far.

The top-performing industry sectors year-to-date are either involved in energy or technology. The Dow Jones U.S. Select Oil Equipment & Services Index is +15.80%, the Dow Jones U.S. Oil & Gas Index is now up by +13.73%, and the Dow Jones U.S. Select Oil Exploration and Production Index is up +10.63%. Even the beleaguered S&P Global Clean Energy Index is high by +11.74%. Oil prices today surged by $6.76, or +7.84%, to $92.96 as violence continued in Libya, the largest oil producer in North Africa, and Bahrain. The increase in energy equities can be traced back long before the current Middle Ease unrest, but oil prices have always been sensitive to politics. On the technology front, the PHLX SOX Semiconductor Index is up +14.69%, the S&P North American Technology-Multimedia Networking Index is up +14.47%, and the Dow Jones U.S. Technology Index is up +8.47%.

International equities are seeing emerging markets peel away from developed nations' equities. European equities are leading the way, with the S&P Europe 350 up +7.05%. The MSCI EAFE Index is up +5.50%. Interestingly, it appears that the unrest in the Middle East has diverted attention away from the European financial concerns with the MSCI Europe Financials Index up +14.74% and the MSCI Emerging Markets Financials Index down -5.01%. The MSCI Emerging Markets Index is also down -2.53%, while the S&P Latin America 40 Index is -2.91%.

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Bond markets are regaining their footing, with the obvious exception of long-term government bonds. The best performing bond sector is high yield, with the iBoxx $ Liquid High Yield Index +3.64%. Short-term, high quality bonds are also on positive ground, with the Barclays Capital U.S. 1-3 Year Credit Bond Index up +0.33% year-to-date. Municipal bond indexes are now settling in neutral territory with the S&P National Municipal Bond Index -0.02% and the S&P Short Term National Municipal Bond Index up +0.24%. Meanwhile, the Barclays Capital U.S. 20+ Year Treasury Bond Index is -4.96% lower on the year.

SELECTOR® models recently sold positions in Latin American equities and are preparing to close existing positions in emerging market equities. We continue to enjoy a target-rich environment for equities as we work to effectively diversify managed equity portfolios. SELECTOR® Aggressive Growth and SELECTOR® Growth models are 100% equities. SELECTOR® Conservative Growth models are now 80% equities/20% bonds, with SELECTOR® Balanced Growth models 60% equities/40% bonds. SELECTOR® Income & Growth models are 40% equities/60% bonds. SELECTOR® Income models remain 100% invested in bonds.

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