SELECTOR
Real-Time Money Management

Monthly Commentary

February 18, 2013

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

The first six weeks of 2013 have been productive for equities. The current rally actually started during the end of November, so the total run is now twelve weeks. For those who may become skittish on that fact alone, be reminded that the June-September 2012 Bull Market rally was in its sixteenth week before it generated a sell signal, and the actual decline did not start for four weeks. Of course, every rally has its own lifespan. Another measure would be to compare the percentage gains in addition to the timeline. That June-September 2012 rally saw the S&P 500 rise from 1266 to 1474, +16.4%. Our current rally has the S&P 500 starting at 1343 and now at 1524, +13.5%. It is too soon to be overly wary. But it is never too soon to be aware.

In the January Monthly Commentary we spent a considerable amount of time discussing a trend reversal indicator that we have been developing for the past 13 months. I am happy to say that the SELECTOR® Trend Reversal Indicator is now fully operational and providing us with critical guidance as we navigate the financial markets, particularly with equities. This valuable tool provides us not only defensive data, or sell signals, but also with opportunity recognition data, or buy signals. 'Buy signals' and 'Sell Signals' seem to create their own sense of urgency. It is important to understand that this new process is not a scary little black box that surprises us with pop-up instructions. Rather, it functions more like a crosswalk signal in a big city. It tells us when it is safe to cross and when it is better to wait.

So what is it telling us right now? So far in 2013 we have had green lights for virtually all of our domestic equity indexes and sectors. We did get a red light for emerging markets international equities a few weeks ago, and we responded by selling our emerging markets equity positions. We are closely monitoring developed international equities, which are operating under a red light, and we are preparing to sell this sector from managed portfolios at better prices. Domestic equities are looking good and steady. Conditions can always change in just a few weeks and we remain diligent, knowing we are utilizing excellent tools. Our confidence in these tools has never been higher. Markets will fluctuate, that is a given. But we are prepared to respond.

Bond markets have pulled back over the past four weeks. It hasn't been a sharp, or even an alarming decline and our trend reversal indicator did give a mild red light in early December. One of the features of this indicator is that it can generate strong, moderate and mild signals. Mild signals are often associated with a pullback within the context of a predominant trend and are not considered 'sell signals' like the moderate and strong variety. The Barclays Aggregate Bond Index at this writing is down a correspondingly mild -0.65%. The long term trend that has been supporting this index since March of 2009 remains intact. Interest rates remain at record lows, and the Federal Reserve remains resolute on keeping them low for an extended period. This has been an extremely long rally for bonds, fueled artificially by the Fed's actions. At some point that will change, but for now it is steady as she goes.

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Steady as she goes pretty much sums up our current perspective for both equity and bond markets. Aside from the two international equities sectors discussed earlier, there is little cause for concern, and even less incentive to consider any major adjustments in managed portfolios. Cash is trash and equity markets are stronger than bond markets. This should encourage ongoing capital to find its way into the equity markets. Technically speaking, most of the sectors we follow have either broken through long-standing resistance the past four weeks, or are prepared to do so. This adds more fuel to the Bullish fire and scatters the Bears.

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Sources: Bloomberg, iShares.com, Marketwatch.com, Stock Trader's Almanac 2012, StockCharts.com.