

July 19, 2012

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

Before I start writing a new Monthly Commentary I first review the previous month’s commentary. Sometimes I wince when an unexpected market development occurred, especially mere days after the commentary is posted and mailed. Other times, I smile when the previous commentary was spot on. Today I am smiling. I invite you to reference the June Monthly Commentary before you proceed with this read. If you didn’t save it, the easiest way to review past Monthly Commentaries is to visit our website at www.selectoronline.com. The Monthly Commentary link is on the home page and when you click on it you will find all of our monthly commentaries dating back to January of 2010!

So why am I smiling? You will remember that our most recent equity market correction took prices on large cap indexes such as the S&P 500 as much as -10% lower. Mid cap indexes such as the S&P 400 declined -12%, while small cap indexes like the Russell 2000 fell -14% from their April highs. The S&P 500 has now +8.6% above those early June lows. The S&P 400 has rebounded +7.6% and the Russell 2000 is +10.2% higher. The correction for equity markets has ended. They have continued to develop a very constructive trading base and have made impressive moves from those correction lows. Domestic equities are now poised to test the April and May highs. That’s why I smile.

The most mistreated sectors in that correction were emerging markets and the energy sector. You may remember that these were the best performing equity classes in the first quarter. The MSCI Emerging Markets index, after climbing +18% in the first quarter, declined -27% from those highs, with a -19% decline in May alone. It still has work to do to recover all of that, but has rebounded by +8.3% since the June lows. The Dow Jones Energy Index fell -19.5% in the course of the correction. Since those lows were set it has climbed +13.0%, including gains the last five days in a row. I will be talking more about energy prices a little later.

Bond markets are still exhibiting impressive strength, and their technical charts are the envy of every equity sector. So far in the month of July, the Barclays Aggregate Bond Index, the Vanguard Total Bond Index, the JP Morgan USD Emerging Markets Bond Index, the Barclays High Yield Bond Index, the iBoxx \$ Investment Grade Corporate Bond Index, and the Barclays TIPs Bond Index have moved upwards to new multi-year highs. The U.S. bond market continues to be the darling of the global bond world, even with our record low interest rates.

All of these market advances have been made in the face of economic news that continues to indicate a very slow recovery in the U.S. The second quarter earnings reporting season is in full swing and the results are not the across-the-board positive surprises that we normally see during recession recoveries. Internationally, the economic news is also tainted between the European financial pressures and the slowdowns in China. Technically speaking the picture is more clear. Equity markets’ first quarter advance and second quarter decline have etched out a clear trading range that should create interesting capital flows in the second half of the year.

“It is but another ploy in the biggest chess match in the world.”

Energy sectors have been particularly interesting. Oil prices rose to \$110/barrel in March and settled at \$105.95 on May 1st. By June 29th light crude had touched \$77.28/barrel, -27.1% lower. Today it closed at \$92.63/barrel, +19.9% higher. What changed? The decline was blamed on the threat of a global recession, starting in Europe and circling the globe. The rise is being credited with the situation in Syria, projected impacts on Iran, and major saber-rattling from Russia and the U.S. Has the world’s demand for oil fluctuated by plus and minus 20% in the last eleven weeks? Absolutely not. It is but another ploy in the biggest chess match in the world.

We believe that there is more life in this maturing Bull Market than meets the eye. With the elections and the potential for more Fed assistance in the form of QE3, we don’t want to be on the sidelines. **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.

Edward D. Foy
Manager, SELECTOR[®] Money Management
www.selectoronline.com, Ed@selectoronline.com
(800) 456-4380