

**June 14, 2012**

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

**So the operative question is, what do you want to hear first, the good news or the bad news?** People classically call for the bad news first. Maybe to get it out of the way. Maybe with the hope that the good news to follow will fix things. So what is the bad news? We have had two corrections in two consecutive months, a mild one followed by a moderate one. The moderate one is still in play although price action the last two weeks has been more positive than negative. But I'm getting ahead of myself. At SELECTOR we were very conservative at the start the year and didn't expand our equity exposure until March and April. As a result we didn't participate in the positive January-February move but have participated fully in the two corrections. Adding insult to injury, the two best performing sectors of the first quarter, international emerging markets and energy, are the worst in this quarter. We have positions in both. That is the bad news.

**The good news is that price action the last couple of weeks has been much more positive.** At today's closing price of 1329.10 the S&P 500 was once again above its 150 day moving average of 1321.95, and has advanced 4.98% above the reaction low seen on June 4<sup>th</sup>. We are seeing similar recoveries in all domestic large cap equity indexes. Momentum has shifted to the positive side for every major market index we follow, including international emerging markets and energy. Although volatility picked up near the bottom of the correction, prices remained in a tight range. That kind of action can 'carve out' an intermediate term bottom. The current correction's closing low was on June 1<sup>st</sup> with the S&P 500 at 1278.04, -10.12% lower than the April 1<sup>st</sup> high and -9.68% lower than the May 1<sup>st</sup> high. We define a mild correction as a decline of -5%, a moderate correction as a decline of -10%, and a severe correction as a decline of -15%, as seen last August. Corrections are temporary, even severe corrections. We only have to look back on the third quarter of 2011 as a vivid reminder. As difficult as those times were, markets resolved the correction and advanced. We anticipate that happening again in 2012.

**The S&P 500 has defined two trading ranges thus far in 2012.** The S&P 500 opened the year at 1258.86 and marched right up to 1422.38 by April 1<sup>st</sup> for an impressive run. The April correction then defined a trading range from that April 1<sup>st</sup> high, down to the correction low of 1357.38, which was successfully tested two weeks later. This is the upper of the two trading ranges with a total range of 5%. The lower trading range has upper resistance level at 1357.38 and support at the reaction low on June 4<sup>th</sup> of 1266.74. This lower trading range has a total range of about 7%. These

stacked trading ranges will define the intermediate term trend which, in a word, is sideways. Given the velocity of the reversal at the support level in the trading range we would be surprised if equity markets don't find themselves back in the upper trading range by the end of this month. Summers tend to quiet down after the second quarter comes to a close, which may set up a nice base for another run at the April/May highs. Political news might fuel the fire for a breakout during the second half of the year. This is the positive scenario, and we are positioned accordingly.

**The other side of the question is, “What if we don't rally right back to the March/April trading range?”** That reminds me of when my young daughters would complain during a car trip, “Are we there yet?” The answer would always be, “It will be a little while longer.” Impatience just made the trip louder and seem longer. That is how it works with investing. Which brings us to detours. A detour is a directional correction that one encounters while on a journey to a farther destination. Conversely, a market correction is a directional detour that one encounters while on a life-long journey. As long as you stay on the road, you will arrive at your destination. Market trends don't end at the beach or grandma's house. They involve a very long journey that can involve very long detours.

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**We remain confident in the long-term trend for equity markets, despite the corrections/detours that have popped up in the second quarter.** Accordingly, we remain fully invested in anticipation of a positive second half of the year. **SELECTOR**<sup>®</sup> Aggressive Growth and Growth models are currently 100% invested in domestic and international equities. **SELECTOR**<sup>®</sup> Conservative Growth models are now 80% equities/20% bonds, and **SELECTOR**<sup>®</sup> Balanced Growth models are now 60% domestic and international equities/40% bonds. **SELECTOR**<sup>®</sup> Income & Growth is 40% equities with 60% bonds, and **SELECTOR**<sup>®</sup> Income models are 100% invested in bonds.

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