SELECTOR
Real-Time Money Management

Monthly Commentary

March 21, 2011

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

Does anyone doubt whether financial markets were still vulnerable to non-financial world news? This is one of the primary realities associated with investing. Events that appear to have virtually no direct impact on your situation can still pack a wallop when it comes to your portfolio. While everything seems to be stable in the Western hemisphere, on the other side of the globe, political and social unrest in Egypt and Libya held our attention. But it was the horrific natural disaster and subsequent threats to the nuclear reactors in Japan that really rattled investors' cages.

Why and how can this have such an impact on us here in the U.S.A, thousands of miles away? It's the human factor. Even in this age of phenomenal technology, we are still touched by the plights of others. We can still empathize with their desperation and feel their horror. What if this happened to us? How would we react? What can we do to prevent that, or to help them? These questions, these unknown factors, are exponentially more powerful than the facts and numbers that are analyzed and digested every business day. Fear leads to doubt. Doubt leads to hesitation. Hesitation slows momentum and increases the sense of vulnerability, which can increase volatility.

"Then the earth moved in Japan."

Market volatility had been almost absent from financial markets in December, January and the first three weeks of February. It could have been this exceptionally placid pace that contributed to the extreme reactions to the Middle East unrest. Investors had a lot of profit on the table. It may have looked like a good time to reevaluate current positions and look for other opportunities. In fact, this was our feeling. We initiated tactical portfolio readjustments in early March, eliminating positions in emerging markets and under-performing domestic equities. We had been monitoring the relative strength in technology sectors and still liked energy, which had surged with the unrest in Libya. So we made our moves. Then the earth moved in Japan.

A complicit reality with news-related market declines is that they have historically been short-lived. One month after Tuesday, 9/11/2001, equity markets had regained price levels that existed on the prior Friday after experiencing an extremely sharp decline. This past week, major domestic and international equity indexes stopped their descent and actually closed higher for the week. While it is still too early to verify that the worst is over, at this juncture it appears that we have been seeing the beginning of the recovery, following the very human reaction to the initial news shock.

The S&P 500 Index now rests up +2.15% YTD, the Russell 2000 Small Cap Index is +1.62%, and the S&P Europe 350 is up +3.38%. These numbers are well below their highs for the year, but the fact that they are all in positive territory is encouraging. The MSCI Emerging Markets Index is down -4.32% and the MSCI Japan Index is down -7.59%.

Bond markets continued their stabilization process, benefiting from the sudden flow of capital from equity markets. The iBoxx $ Liquid High Yield Index is now up +3.64% YTD, with the Barclays Capital Aggregate Bond Index up +0.98%, and the S&P National Municipal Bond Index up +1.32%. The only bond index in negative territory is the Barclays Capital U.S. 20+ Year Treasury Bond Index, now down only -0.49% for the year.

SELECTOR® allocations had just completed tactical adjustments prior to the Japan earthquake, selling emerging market equities and under-performing domestic equities. We added European equities, large cap domestic value, and technology sector equities. We continue to hold energy sector equities, in addition to mid cap and small cap domestic equities. The new technology positions were the most affected by Japan, but our other holdings appear to be weathering the storm in relatively good fashion. 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.

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

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