# Monthly Commentary

## March 19, 2012

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

**The end of the first quarter of 2012 is in sight and one thing is very clear… we are definitely still in a Bull Market.** Just six months ago a Bull Market was the farthest thing from anyone's mind. Equity markets were balancing on the edge of an abyss, on the brink of yet another Bear Market. Remarkably, in the final three months of 2011 equity markets found a way to pass back through Narnia's wardrobe door, survive the wild ride into OZ, and settle into an opening quarter of 2012 that was nothing short of a peaceful dream. In January and February, equity markets were remarkable only in their unremarkability. They floated up above their trendlines and moving averages, just out of reach from the experienced professionals still looking over their shoulders at The Cracken that boiled the market waters from August to December.

**Every professional in every profession has at some time found themselves on the wrong side of reality.** When that reality sets in, they may decide whether they will use the experience as a lesson and move forward. Or they may continue to burden themselves with their stubbornness. In the rapidly evolving financial securities world, stubbornness is a blight. At SELECTOR® we were initially quite comfortable with our conservative posture as we moved into 2012. As equity market worked their way higher, we anticipated a normal correction where we could selectively choose our reentry points. As equity markets continued to rise in January and February our primary discipline as trend-followers began to overpower our desire to be defensive, and we began to track other opportunities in equity markets.

**Even as the correction failed to materialize, we observed other intriguing market developments.** Selected equity sectors were rising and defeating long-term downtrends, then successfully working higher over established resistance levels. These technical developments signal price reversals that may represent significant opportunities for further advances. When the brief correction occurred the first week of March, we watched the pullbacks and were encouraged at how steady the support levels contained the pullback. Furthermore, the breadth of the equity markets has increased substantially, which has historically led to broader and longer lasting market moves. Although equity markets crept quietly into 2012 like a lamb, they are now growing and expanding their market base, without excessive volatility. This creates a swell of positive momentum that is impossible to ignore.

**Another bullish development for equities has been occurring in bond markets.** Over the past couple of weeks, bond market sectors have been pulling back from their highs. Bond markets have been pushing higher and higher for the past twelve months, without any meaningful correction. There are lots of profits on the table. Now that volatility has subsided, the bond market's comfort factors are in less demand. In addition as the economy slowly improves the Federal Reserve may be inclined to allow interest rates to resume their normal levels earlier than previously announced. This could also lead to increased selling of bonds. So where will the money from these bond sales go? Six months ago cash was golden, but with rising equity prices and ultra-low interest rates, once again 'cash is trash.' If capital is flowing out of bond markets it has to land somewhere, and the primary remaining target is equities. We believe that this is more supporting evidence for higher equity prices over the longer term.

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**Equity sectors which have been particularly interesting include developed international equities, emerging market equities, real estate securities, and energy-related equities.** European equities had a great deal of pessimism priced into their markets which now appears to be overblown. Emerging markets, whose economies are so dependent upon both European and U.S. economies, are now popping out from the clouds. Real estate securities are breaking out of long term resistance levels. The reality of rising oil prices is back and as we approach Summer, gas prices are steadily approaching $4 a gallon. These sectors are now being included in **SELECTOR®** portfolio allocations. We are now primarily invested in equities within the asset class restraints of the various management styles. **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.

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Sources: Barrons, Bloomberg, iShares.com, Marketwatch.com, Stock Trader's Almanac 2011, StockCharts.com.