SELECTOR
Real-Time Money Management

# Monthly Commentary

## November 16, 2012

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

**The elections have come and gone and not much has changed in Washington, or with financial markets.** Congress is divided and the presidential incumbent has been reelected. An interesting occurrence seen in 2008, and again in 2012, is the post-election sell-off in equity markets. In 2008, equity markets fell 10% the first couple of days after the election and this year we have had a similar sell-off. Of course, some will be quick to blame the sell-off on the election results, but that would only be sour grapes. As we stated in last month’s Commentary, financial markets are not all that enamored with the political election process and have historically performed about the same regardless of the results.

**We believe the post-election equity market sell-off is more of a coincidence.** Equity markets ebb and flow, expand and contract, rise and fall. This year, equity markets advanced from January to April before exhaling once in a small way during April and again, more convincingly, in May. Then they advanced again from June to September. The exhale, or correction process, was certainly due in October, but the elections were right around the corner. As if they were hanging around the celebrity entrance to a theatre, equities marked time in October, just in case something unexpected showed up. When it was clear that the usual suspects were back in place, the overdue exhale/market correction began.

**This is consistent with the cyclical nature of equity markets.** There is no specific pattern or way to effectively anticipate when these rotations will occur. You have to be paying attention to the big picture and the dynamics and the action. If equity markets were as predictable as the tides, we could implement investment strategies that were as predictable as the stages of the moon. Then, we could publish the findings in an almanac and refer to it occasionally to remind us when to buy and when to sell. But investing is most certainly not that easy.

**That being said, there is still value in being aware of the seasonality factors that one can observe with equities.** Last month we discussed this seasonality with respects to the months of November, December and January. Historically, these are the three most profitable contiguous months of the year. There are several seasonality-based investment strategies that reference the month of November. Experienced investors recognize that for U.S. equities, this time of year has historically represented an interesting and potentially profitable time. From a short-term perspective, with the decline in equities since the elections, prices are approaching levels not seen since June. This could be a perfect set-up for a seasonal rally.

**Although equity prices are impossible to predict exactly, modern technical analytics have made great strides towards advancing the process of identifying and recognizing market trends in a timely fashion.** We are very excited about the impact these analytical tools may have on the **SELECTOR®** Money Management programs and the process we implement to build and maintain investment portfolios. In the ‘90’s, investors learned how much they could profit from equities. In the ‘00’s, investors were reminded how much they can lose. Now we are in a new decade and investors are being taught how much faster markets can change. This makes it more important than ever to be attentive, realistic, responsive and disciplined.

***Check out the video on our website of Ed giving insight into this month’s commentary:***
***http://selectoronline.com/whats-new/monthly-commentaries/***

**At SELECTOR® Money Management we have developed a new set of tools to assist us in this process.** These tools involve technical analysis and include first and second generation oscillators designed to more quickly and more precisely identify critical turning points in markets. Our primary goal in the development of these tools, and the implementation of these processes, was to better manage portfolio drawdown. Portfolio drawdown is another way of describing what happens to our portfolios during market declines. In the third quarter of 2011 we saw the effects of high frequency trading, specifically high frequency selling, on our accounts. This extreme volatility is disruptive to portfolio allocation, portfolio performance, and investor psychology. Normally adequate diversification is not an effective means of combating this volatility. Our pursuit of this primary goal has in turn helped us to identify clearer indicators of market upturns. Armed with these tools and confident in their reliability we feel more prepared than ever to help investors navigate the investment waters that lay ahead.

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