Monthly Commentary

October 16, 2012

SELECTOR
Real-Time Money Management

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

It's time to talk politics. And relax, I am not going to try to change your mind. I have been getting a number of questions from clients and other advisors about how I believe the financial markets may react to the upcoming elections. It is another one of those 'crystal ball questions' that come with the territory. As usual, I will first check the history books to see what we can learn from past election years. Since 1950, and during the last seven months of an election year, the S&P 500 has gained ground in 13 of the 15 presidential election years. Of the losses, one was in 2000 when the results were delayed for 36 days. (Thank you, hanging chads of Florida.) The second loss was in 2008 during the banking crisis and the worst Bear Market since the Great Depression. We are now 2/3 of the way through our last seven months of 2012, and the S&P 500 has risen +10% since June 1st which gives the positive probabilities a lot of wiggle room.

For those who dare to take sides on the doom and gloom discussions, remember that historically markets have been ambiguous as to which Party is victorious in the presidential race. The 2000 exception is a perfect example. The indecision hurt more than the ultimate outcome. As has been the case with our three prior presidents, the Congressional pendulum has already been swinging against the incumbent. Political partisanship has rarely been higher, and the potential for more gridlock and less compromise is strong. Financial markets have historically favored gridlock. Americans have been reelecting incumbents for the past few decades. I don't think the markets expect much different this time around. The big surprise would be if he weren't reelected. Financial markets might cheer that event. Bottom line, I anticipate the market's election response to be either a yawn or a quick hurrah.

The Political Cycle is but one of the cyclical pulses that move the markets. The classic Bull/Bear Market Cycle is not driven by election calendars and can vary significantly in length. It is not measured in months, but in years, and the gains and losses can have significantly more dramatic returns. It has been three and a half years since our current Bull Market launched in March of 2009. InvesTech Research calculates the average length of the fifteen Bull Markets since 1932 at 3.8 years. The ten Bull Markets since 1950 have averaged 4.75 years, with the help of the 9 ½ year Super Bull Market of the 90's. To get the most from a Bull Market you want to recognize it early and stick with it till the midnight hour. These are typically the most profitable periods. So while our current Bull Market may be getting 'long in the tooth' it still has the potential to reward the carefully opportunistic investor.

Another very important cycle is driven by the calendar. The Seasonal Cycle involves performance analysis, month by month by month. For example, while the month of October is typically regarded as the most notorious, September is historically more treacherous and at the bottom of the list for both the S&P 500 and the DJIA. Yet our most recent September was quite profitable. The best months for these indexes are December, April, November, March, and January, in that order. In fact, the November-December-January period has been the best three contiguous months. It is important to note that you can't just invest with a calendar. But there are business, political, and portfolio management reasons why, historically, equities do better over this period. And what about October? Well, it has actually the 7th best performing month of the year for the S&P 500 and the DJIA over the past 60 years, in spite of some big spills along the way.

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We firmly believe that the key to successful investing rests in being attentive, disciplined and realistic. All investors will occasionally find themselves off target. There is no perfect methodology and the dynamics are constantly changing. Success is best measured by long-term results and consistency. Whether you are swinging for home runs or singles there are going to be strike outs. Your discipline is what brings you back to the plate. Your experience teaches you to recognize curve balls and sliders. Your execution determines whether you are hitting fair or foul. We still like this market, and are looking for opportunities to score. **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, while **SELECTOR®** Balanced Growth models are now 60% domestic and international equities/40% bonds. **SELECTOR®** Income & Growth models are 40% equities/60% bonds, and **SELECTOR®** Income models are 100% invested in bonds.

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