

September 19, 2011

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

After our tumultuous early August, equity markets have been steadfastly working on base-building. Base-building is a process that establishes a price pattern that may support higher prices down the road. It may be likened to building a base or foundation for a road construction project. The better the base, the stronger the road, the longer it can handle traffic before more repairs are necessary. Markets, like roads are constantly at various stages of construction, destruction, and repair. And like roads, markets are an important part of the journey, vulnerable to traffic, weather, forces of nature and forces of mankind.

Base-building has an important psychological impact for investors. It actually works to restore the confidence of institutional investors, and like highway construction projects, base-building takes time. Institutional investors generally implement buy programs that span several weeks, and sometimes several months. When markets make dramatic drops these institutional buy programs respond by ‘turtling up,’ pulling out of harm’s way. They are very deliberate and sometimes painstakingly slow in regaining the confidence to come out of their shell and resume their intermediate-term and longer term buy programs. Eventually, they get back on track, especially after they see signs of relative stability, the kind of price stability that is demonstrated during base-building activity.

Institutions classically prefer some degree of order, frequently in the form of symmetrical patterns in markets. The absence of order and symmetry keeps them at bay and cautious. We are currently seeing such an absence of order in certain market sectors. Examples would include developed international equities, emerging markets, and the domestic financial sector. On the other hand there are several market groups which are demonstrating a fine symmetry, and accordingly are exhibiting considerably stronger price action. Examples of these sectors would include small cap domestic equity, mid cap domestic equity, as well as the energy and basic materials sectors. A few sectors are already back in the black for 2011. These include real estate securities (REITs), and the utilities, and health care sectors.

The study of price history, trends, and patterns is accomplished through the discipline known as technical analysis. We have all heard the truism that a picture is better than a thousand words, and this cannot be more applicable than when one is analyzing securities prices. Technical analysis is a primary source of information for our firm. The

picture tells the story, often without the drama, and always without the chatter that accompanies other news and opinions about financial markets. It is easy to become confused after listening to or reading numerous versions, complicated details, and often conflicting opinions on financial markets. The fact is, the dissemination of financial news and opinions is a big industry of its own, complete with entertainment and even show business presentations. We prefer to stick to the facts, which in this case is the price. We believe that ultimately the consummate opinions and actions of those who are truly walking the walk, not talking the talk, are reflected in the price of the securities themselves.

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While equity markets have been reestablishing their foundations, bond markets have continued to demonstrate relative strength and hold the high ground. The only exceptions have been in very short-term corporate bonds, which may be experiencing selling as monies are being poured back in to equity markets. High yield bonds, which pulled back with equity prices in August, have already rallied back to the trading range that had bound them the first seven months of 2011. Intermediate to long-term corporate and government bonds, TIPS, and municipal bonds continue to perform well.

SELECTOR® model allocations are fully invested in equities, within the constraints of the various management styles. SELECTOR® Aggressive Growth and Growth models are 100% invested in equities. SELECTOR® Conservative Growth models are 80% equities/20% bonds. SELECTOR® Balanced Growth models are 60% equities/40% bonds, and SELECTOR® Income & Growth models are 40% equities/60% bonds. SELECTOR® Income models remain 100% invested in bonds.

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