SELECTOR
Real-Time Money Management

Monthly Commentary

September 17, 2012

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

Last month we talked about how the equities markets had been 'healing up' from a technical perspective. One of the mysteries of investing is that when the healing (or the sickness) occurs it is almost always in the absence of any specific, notable, accountable economic news. In fact, if you do a quick review of the economic headlines from the past month you will probably wonder why own equities at all. The news has been neutral to bad, especially with respects to jobs and in spite of both of our major political party's national conventions, supposedly two of the biggest pep rallies in the free world. Now you might say, "Wait, there was news. Didn't equity markets surge upwards as Fed Chairman Bernanke announced the next round Quantitative Easing, or QE3?" Yes, that is true. In fact, the DJIA jumped 100 points just from his walking up to the podium and before he spoke a word. The QE3 announcement was the worst kept secret in the world and, in fact, was prompted by the Fed's dour assessment and prognosis of the U.S. economy. They aren't administering the medicine because we aren't sick. Think about that for a moment.

Or don't, because over-thinking market fundamentals is like catching the worst 'investors flu' there is. It is contagious, spreads quickly and can temporarily incapacitate even experienced investors. I know. I caught it in the first quarter of 2012. It started with the extreme volatility and the impact of High Frequency Trading from August to December of 2011. That 'flu' kept me in a risk off trade for most of the first quarter. The cure was to go back to the Fundamentals of Price. We believe there is no better way to assess securities markets than by analyzing the price. We believe that the current price accurately reflects all of the known, actionable, collective opinions on any security. This is especially true in our modern, high-tech, instant-news, digital world. Once upon a time, "When EF Hutton talked, people listened." Now every word is instantly available to every listener who can react with blinding speed and accuracy.

Let's talk for a minute about the cure, the Fundamentals of Price. The Fundamentals of Price include the study of fluctuating prices. These prices can be archived, analyzed and reassembled in nearly endless caverns of raw data, thanks to modern computer technology. The scope of this analysis is huge. It is not unlike any seemingly impossible journey, from sailing across an ocean, flying through the skies, or exploring galaxies billions of light years away. It works because there is a systematic approach to managing the data. By applying principles of human nature to the raw data, images evolve which can help us understand and navigate. For investors, the collective study of these images has been evolving for centuries and is known as 'technical analysis.' Once the data is assembled, it still needs to be interpreted and applied. Even then there can be dissension on what exactly is transpiring and how an investor can best capitalize on what they see. There are winners and losers. The very best of the best are rarely championed because they prefer the quiet anonymity that allows them to continue their work without distraction or distortion.

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Technically speaking, after last week's robust two-day rally, several equities sectors have broken up through resistance levels that were prompting my cautionary remarks last month. In a nutshell, the risk-on trade is back. Domestic small cap, emerging markets, and energy sectors have taken the short-term lead like they had during the first quarter. Conversely, the conservative risk-off trade has been less effective. This includes utilities, real estate, and health care. While these sectors advanced last week as well, their price action was much less robust. Bond markets were mixed and volatile the past month as they, too, experienced a risk-on conversion. International bonds and high yield bonds advanced, as did TIPs bonds. Municipal and high quality bonds retreated, especially intermediate and long term U.S. government bonds. This type of market environment, while presenting opportunities, also inherently deserves a greater measure of risk management, because the volatility increase can swing both ways.

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.