SELECTOR® Money Management
2012 Year End Review

The First Quarter – An Abundance of Caution

Rarely does an investment professional come under scrutiny for exercising an abundance of caution with equity markets. This would be especially true after equity investors experienced high risk and high volatily in the second half of 2011. But 2012 crept in like a lamb, with equity markets exhibiting none of that excessive volatility so prevalent in 2011. Equity prices moved to gradually higher prices in January, February and March without a single price correction. SELECTOR® Money Management exercised an abundance of caution as we started the first quarter of 2012, overweighting bonds and underweighting equities. As the quarter progressed we increased equity allocations and decreased bond holdings. The good news of the first quarter was that equity and bond markets were calm and positive. The bad news is that with 20/20 hindsight we would have participated more fully in the equity market rally. Bonds were essentially flat for the first quarter.

The Second Quarter – Corrections Take Their Toll

During the second quarter, equity markets went through two corrections. In April they experienced a relatively short, mild five percent correction that was quickly recovered, but May was much more difficult. Equity markets declined for all but a few days in May, with major market indexes falling more than ten percent by month's end. Essentially all of the first quarter gains were gone by June 1st when prices finally found support and began to recover. Volatility spiked in May and many of the best performing equity sectors of the first quarter experienced severe declines in the second quarter. This was contrary to the ordinary, and particularly frustrating for cautious investors who were once again embracing equities at the end of the first quarter. Needless to say, the second quarter of 2012 was not very satisfying for equity investors, even with June's recovery. Bonds did enjoy a respectable second quarter as capital flowed out of equity markets in search of more stable prices.

The Third Quarter – Respectable Recovery

Third quarter action was quite positive for equities and this time there was better participation across the board. Both domestic and international equities advanced steadily during July and August, working to recover the second quarter declines. By September, equities were pushing upwards through resistance to yearly highs before pulling back at quarter's end. Bonds also made modest progress in the third quarter. The stage was set for the November election.

The Fourth Quarter – Politics and Drama

Equities marked time for the first half of October, then headed lower into Election Day. The next day equities fell sharply and continued their retreat into the second moderate correction of the year. Like the May correction, this decline erased all of the previous quarter's gains in a few weeks. The week of Thanksgiving, equity markets abruptly reversed and in four weeks were sitting close to the annual highs. But just as abruptly, equities turned back and declined into the end of the year, oblivious to the regularly scheduled Santa Claus rally, while Congress played politics at the edge of the Fiscal Cliff. Equity markets closed mostly flat in the fourth quarter, clinging to their gains of the first quarter. It was a uncharacteristic end to a mostly forgettable year. It does bear mentioning that when Congress finally took action over the New Years break, equity markets erupted with their biggest opening day in history on January 2nd, 2013.

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