SELECTOR® Money Management
2010 Year End Review

Like a professional football game, the fourth quarter held most of the action for 2010 and the results were very positive. Market action during the third quarter was a strong indicator of that potential, needing only one or two variables to fall into place. By November, the path was clear. The S&P 500 finished the year up +15.06%, after closing out the third quarter with a gain of +2.34%. The S&P 400 Mid Cap Index closed out the year +26.64%, following up from a gain of +11.98% through the third quarter. And the Russell 2000 regained the momentum it had lost mid-year, finishing up 2010 with a gain of +26.85% after a 3rd quarter YTD of +9.01%.

International equities were a mixed bag in the fourth quarter. The clear winners were emerging markets, which clearly separated themselves from the financial difficulties in Europe. The MSCI Emerging Markets Index finished the year with a gain of +18.88%, while the S&P Europe 350 ended 2010 up + 2.50%. In fact, the worst performing single country indices that we follow were all European, with the MSCI Spain Index down -21.95%, MSCI Italy Index down -15.01%, MSCI Ireland down -12.72%, and MSCI France down -4.11%. In contrast, the S&P Latin America 40 Index gained +16.64%, while the MSCI All Country Asia ex-Japan Index was up +19.62%.

Bond markets enjoyed a strong rally the first three quarters of 2010, but gave back those gains in the fourth quarter. While still making a respectable showing given record low interest rates, their returns remained in the shadows of their mid-year advances. The Barclays U.S. Aggregate Bond Index ended 2010 with a gain of +6.54%. The Barclays Capital U.S. 20+ Year Treasury Bond Index finished up 7.87%. The iBoxx $ Liquid Investment Grade Index ended up +9.37%, and the Barclays Capital U.S. TIPS Index closed +6.31% at year's end. The only bond gainers in the fourth quarter were high yield bonds, with the Barclays Capital High Yield Bond Index finishing 2010 up +15.12 %.

Once again, the best performances of the fourth quarter and for the year were found in equity sectors. The most evident sector was energy, as oil prices once again passed the $90/barrel mark and gasoline prices pushed past $4.00/ gallon. The Dow Jones US Select Oil Equipment & Services Index rose +27.88% in the fourth quarter alone to finish up +32.16% YTD. Close behind was basic materials as copper prices soared in the fourth quarter. The S&P Global Materials Sector Index gained +16.92% in the fourth quarter, ending up +31.73% YTD. Real estate securities also performed well in 2010 with the Dow Jones U.S. Real Estate Index gaining +26.93%.

SELECTOR® Money Management models were adjusted in the fourth quarter in response to the broad scale shift from bonds to equities. Equity allocations continue to be focused on domestic mid cap and small cap equities. We also incorporated emerging markets equities, energy equities, and basic materials equities when those sectors were available. We continue to hold real estate securities. Bond allocations were reduced by 20% in deference to equities, and high yield bonds were introduced into those styles that continue to hold bonds.

SELECTOR® model allocations are now fully invested in equities within their respective style constraints. SELECTOR® Aggressive Growth and Growth models are now 100% invested in equities, with emphasis on domestic mid cap, small cap, energy, basic materials, real estate, and emerging markets. **SELECTOR®** Conservative Growth model are 80% equities/20% bonds, and include high yield bonds. **SELECTOR®** Balanced Growth models are 60% equities/40% bonds, and **SELECTOR®** Income & Growth models are 40% equities/60% bonds, with both models including the emphasized equity sectors and high yield bonds, in addition to high quality short-intermediate term bonds. **SELECTOR®** Income models remain 100% invested in bonds.

There are historic precedents for equity markets during the third year of a sitting President's term. But even more importantly are the predominant trends that are being reflected in the prices of domestic and international equities. Regardless of your politics or your current economic outlook, it is difficult to ignore the evidence as presented by the improving price trends for equities. At **SELECTOR®** we pay very close attention to those trends.

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