SELECTOR® Money Management
2009 First Quarter Review

The first quarter of 2009 held both good and bad news, unlike the fourth quarter of 2008 which was bad to the bone. Major market indexes declined steadily through the months of January and February, culminating in new Bear Market lows on March 9th. The S&P 500 declined by a whopping 226.73 points, or -25.10% over that 9 ½ week period. The Dow Jones Industrial Average fell 2,229.34 points, or -25.40%. It was a very difficult follow-through from 2008 to start the new year. The good news was that equity markets then experienced a steady rally from those lows through the end of the month, with the S&P 500 climbing 121.34 points and the DJIA rising by 1,476.95 points in just three weeks. When the first quarter dust settled, the S&P 500 was down -11.67% and the DJIA was down -13.30%

The good news extended beyond an end-of-quarter rally by major market indexes. In the first quarter, distinct separations developed by market capitalization and by industrial sector. Institutional investors were selectively buying, unlike the wholesale selling we saw in the fourth quarter of 2008. Large cap equities performed much better than small cap equities. Growth equities were favored over value-oriented equities. On the international front, emerging markets equities were significantly stronger than Europe and Japan. In the industry sectors, technology and basic materials stocks were steady, while financial and real estate securities suffered. For specific reference, through the first quarter, the Dow Jones U.S. Technology Index was +5.11%, the MSCI Emerging Markets Index (SM) was +2.38%, and the Morningstar Large Growth Index was +0.23%. In sharp contrast, the Dow Jones Real Estate Index was -30.09%, the Dow Jones U.S. Financial Services Index was -25.76%, the Morningstar Small Value Index was -19.07%, and the S&P Europe 350 Index was -14.13%

Perhaps the best news of the first quarter was that bond markets once again resumed their traditional role as portfolio stabilizers. As may be expected, given the cost of the Stimulus Packages being passed, inflation-sensitive TIP's were the best performers in the fixed income arena. The Barclays Capital U.S. TIPS Index was up +5.52% in the first quarter. There was also some differentiation in the bond markets, as short-term bonds trumped long term bonds, corporate bonds outperformed government bonds, and domestic bonds outperformed international bonds. For reference, through the first quarter, the Barclays Capital 1-3 Year U.S. Credit Index was +1.30%, the Barclays Capital 1-3 Year U.S. Treasury Index was +0.14%, and the Barclays Capital U.S. Aggregate Index was +0.12%. In contrast, the Barclays Capital 10-20 Year U.S. Treasury Index was -2.45%, while the S&P/Citigroup International Treasury Bond Index was -4.65%.

We are still in the grips of a Bear Market, despite the recent rally. It takes several months to form market bottoms, and although we are seeing improvements in selected areas, in would be premature to suggest that the Bear Market is over and a Bull Market is now in place. One of the keys to the economy and its eventual turnaround is the housing market. In the month of March, there were several surprises, including a 4.7% increase in new home sales for February, a 5.1% increase in existing home sales in February, a 22.2% increase in February housing starts, and a 3% increase in February building permits. In addition, we are seeing preliminary signs of technical improvement in equity markets that are critical to a long-term market reversal. In the meantime, however, we feel that it is prudent to remain cautious and conservative.

The end of March, SELECTOR® Money Management initiated allocation changes designed to take advantage of the strong short-term rally, as well as reposition and rebalance managed accounts. SELECTOR® Aggressive Growth models are now invested 80% equities/20% bonds, SELECTOR® Growth models are 60% equities/40% bonds, and SELECTOR® Conservative Growth models are 40% equities/60% bonds. SELECTOR® Balanced Growth models are now 20% equities/80% bonds, and SELECTOR® Income & Growth models are 100% bonds. These allocations reflect the relatively strong sectors in both equity and bond markets, and should give us a firm foundation as we continue through the year, looking for further opportunities.

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