SELECTOR® Money Management
2009 Third Quarter Review

The accolades for the third quarter of 2009 are broad and expansive, especially in light of the strong second quarter. The Dow Jones Industrial Average (DJIA) had its best quarter since 1998, and its best third quarter since 1939. The DJIA had its steepest two-quarter advance since 1986. The Standard & Poors 500 extended its winning streak to seven straight months of gains, its longest streak in almost three years. It experienced its biggest back-to-back quarterly rally since 1975, gaining +35.78% in six months. The MSCI EAFE Index jumped +52.76% and the Russell 2000 advanced +43.31% in the last two quarters. Now, it needs to be put into context that these runs are coming off the bottom quarter of one of the worst Bear Markets in history. But in our view, that Bear Market is dead and gone. A new Bull Market is in play, and historically the 'coming out' party gets a little wild. This most certainly is reflective of our experience the past six months.

As good as the major domestic equity markets have performed, the premier numbers are still being put up by emerging markets. The MSCI Emerging Markets Index (SM) gained another +20.91% the third quarter and is now up +64.45% for the year. The S&P Latin America 40 Index is up a whopping +73.20% year-to-date after adding another +24.53% in the third quarter. Looking at the best performing industrial sectors, the Dow Jones U.S. Technology Index is now up +48.54%, the Dow Jones U.S. Select Oil Equipment and Services Index is up +57.20%, and the Dow Jones U.S. Select Basic Materials Index is up +50.58% year-to-date. Big moves were also seen in the real estate sector, with the Dow Jones Real Estate Index gaining +32.87% in the third quarter alone, and now up +14.28% year-to-date.

High yield bonds continued to reward investors, with the iBoxx $ Liquid High Yield Index gaining another +13.05% in the quarter, and now sitting +37.54% year-to-date. Short and intermediate-term corporate bonds were also productive. The Barclays Capital U.S. Intermediate Credit Bond Index is now up +14.05% and the Barclays 1-3 Year U.S. Credit Index is up +10.10% year-to-date. The Barclays Capital Treasury Inflation Protected Securities Index closed out third quarter of 2009 with a gain of +9.19%. The threat of higher income taxes gave municipal bonds a big boost in the third quarter. The S&P National Municipal Bond Index gained +7.50% in the third quarter and is now up +13.83% year-to-date. Even long-term U.S. Treasury bonds regained some ground in the third quarter. The Barclays Capital 10-20 Year U.S. Treasury Index was up +2.54% for the quarter, and is now down -4.52% year-to-date. The Barclays 20+ Year Treasury Bond Index was up +4.00% in the third quarter and is now down -14.65% year-to-date.

As was referenced in the first paragraph, in our opinion the new Bull Market is now fully in play. The official timeline of 6 months from the market lows was met on September 9th, and the gains since March 9th have most certainly exceeded the minimum +20% increase. This does not mean that volatility will be reduced going forward. Nor does it imply that equity markets are not vulnerable for a pullback, given their extensive and extended rise from the lows. It does indicate that the path of least resistance is now up, and we are still quite a distance from the October 2007 historic highs. We fully anticipate that before this Bull Market has run its course, those high water marks will be surpassed.

During the third quarter, SELECTOR® Money Management initiated changes in managed accounts that effectively increased equity allocations and decreased bond allocations. SELECTOR® Aggressive Growth models are 100% invested in equities. SELECTOR® Growth models are also 100% invested in equities. SELECTOR® Conservative Growth models are now 80% equities/20% bonds. SELECTOR® Balanced Growth models are 60% equities/40% bonds, and SELECTOR® Income & Growth models are 40% equities/60% bonds.
Equity emphasis includes emerging markets, developed international equities, technology, basic materials, and energy sectors. Capitalization and style-weighted emphasis includes small-cap value and mid-cap growth equities. Bond emphasis includes high yield and intermediate-term corporate bonds. In the third quarter we have also included real estate securities in Aggressive Growth models.

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 Sources: Bloomberg, Standard and Poor's, Morningstar, CBS Marketwatch, Lipper Analytical.

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