

Technically Speaking

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DORSEY WRIGHT & ASSOCIATES JUNE 2010 NEWSLETTER

After a good start to the year in the equity market, the turn of the calendar to May has brought about some rather unwelcome volatility causing the Dow Jones Industrial Average to fall about 10% since putting in a high of 11250 at the end of April. The road so far this year has been like a summer road trip. The trip started out with very little traffic and it was clear sailing. Then, about an hour or so into the trip we hit some traffic and started to slow down. Now, we're stuck in the middle of rush hour traffic outside of a major city. A quick peek at the traffic scan just shows red along the route indicating heavy traffic. We've come to a standstill. As frustrating as this trip as been so far, we can't change the traffic no more than we can change what happens in the market. But we can choose how we react to it. We could say a few choice words, bang the steering wheel, in general get into a rage. Or, we could calmly handle the situation and make the best of it. We can use the time in the car to catch up on our favorite book on tape or make a few phone calls. When traffic conditions in the market change, the first feeling is often one of getting uptight or even feeling outright angry – how could the market do this to me? This is the situation we are facing today –heavy traffic. Fortunately, the disciplined investment philosophy that I adhere to allows me to remain calm and take necessary action when the traffic in the market becomes heavy.

The risk management indicators I track continue to shift to a defensive posture as they have since the beginning of May. As a result, certain client holdings have been sold and those proceeds are automatically raising higher cash positions as markets are pulling back. This goes straight to the heart of my risk reduction philosophy as we are preserving wealth within a weakening market environment. While the volatility in the equity market continues to rise I will continue to seek out investments for the portfolio that I feel could help to reduce overall market volatility.

- For those of you – or your friends – who are fully invested (for growth) or feeling bridled within a “buy-and-hold-no-matter-what” approach, I would urge caution at this time. In fact, you might want to think about a handful of questions if you're in a more stationary approach.
- What tangible strategies are you employing to preserve capital within the constantly changing global marketplace?
- How exposed do you feel if we're entering an extended correction period? Are you comfortable with that amount of exposure?

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Weighing current conditions and risks, I'm being more selective on initiating new growth positions – and am more interested in pullback opportunities that are stabilizing and exhibiting strong relative strength characteristics vs. their peer group and the overall market. Those are in shorter supply right now. Over the coming weeks (or maybe even months), we may have better opportunities to pick up solid values – so I believe it's wise to be patient. I know the big question on your mind right now is, how does this market turmoil play out? And to that, there is no great answer as it is impossible, and in my opinion fruitless, to try and predict the future of the market. One possible scenario is that the market just hobbles along here, not losing a lot more ground or making much up ground either. Yet another possible scenario is the market indices continue to give back more ground and fall. We don't have a crystal ball to know exactly how this will play out. What we do know is that given the information we have at hand, risk is elevated right now and you may want to reduce your exposure.

In the meantime, I'm continuing to study the situation and will keep you posted as the indicators get more positive. Always feel free to call with any questions and pass this along to a colleague or friend who might like to look at this information. For my relationships, this is about having a logical, disciplined and more nimble game plan vs. being casual or taking too much for granted.

If you have any questions, please give me a call. Thank you for your business and support.

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