

“Technically Speaking” Summer 2010 Newsletter

The second quarter of the year has now come and gone and the Summer of 2010 is in full swing. It is all that we can do these days to stay cool as the thermostats continue to rise. For some this means spending the afternoons floating in the pool, stretched out in front of the AC, or perched up a few thousand feet in the cool mountain breeze. There are a variety of ways for staying cool in the summer months, but in order to achieve your goal of staying cool you must be proactive. The same holds true for managing risk in the stock market.

There are many different methods of portfolio management that exist today, all with the similar goal of producing adequate returns over a standard investment horizon. Over the past couple of years some of these philosophies have come under intense scrutiny, but one thing that remains true today, as it has been for hundreds of years, the basic economic concept of supply and demand. If there are more buyers willing to pay higher prices then the prices of goods would rise. If there are more sellers willing to accept lower prices then the prices of goods must fall. If buying and selling pressure are equal then prices of goods would remain the same. There is nothing else to the concept. The forces that drive the prices of produce in the supermarket are the same forces that drive the prices of stocks on Wall Street. This is why I adhere to a portfolio management philosophy that is deeply rooted in the irrefutable law of supply and demand in an attempt to manage risk in the financial markets. As we have ushered in the Summer of 2010 there are probably many good thoughts in the minds of our clients with respect to family vacations and long summer nights. The stock market is likely one of the furthest things from your mind...and rightfully so. We reviewed the historic "summer" returns of the equity market, adding some levity to the annual "Summertime Blues" argument that is often applied to the market. Over the previous 29 years, 12 summers (or 41%) have been losing summers for the S&P 500 (11 for the DJIA). We do not know how the rest of the summer will unfold, but what we do know is that we have seen a relatively high amount of volatility in the market during the past few months. Consider this, since the end of May there have been 37 trading sessions for the stock market. Of those 37 sessions, 16 of them saw the Dow Jones Industrial Average (DJIA) close up or down more than 1%! In other words, 43% of the days this summer saw the stock market finish with a volatile close.

This is all to say that it certainly has been a volatile summer, not only with respect to the temperatures outside, but with respect to the daily moves in the stock market, as well. Think, for a second, about your last trip to the beach. If you are anything like me the moment I set my eyes on the water I want to dive right in; however, how do I know what's going on underneath the seemingly calm waters. What's the current like? Is there a rip current? A strong undertow? A quick glance to the lifeguard's stand should give me the information that I need, or should have, before entering the tempting ocean water. Likewise, before we jump with both feet in the waters of the stock market, I want to make as sure as possible that we are not missing any potential market warning signs. As things appear to clear up we can consider beginning to wade back into the market, and I am keeping track of the situation to see which part of the beach could provide the most desirable swimming (read: which stocks and sectors are showing signs of demand being in control).

One area that has recently seen demand coming back for the first time all year is the European market. In terms of stock market returns the developed, western European countries have produced some of the worst returns for the first half of 2010. However, the pendulum is seemingly turning back to demand controlling the European market, on the equity, currency, and fixed income basis. In addition to the near term positive signs developing in the European equity market, both Emerging markets and Frontier markets are also showing signs of firming up after recent corrections. Indications that demand is beginning to win the arm wrestling contest over supply are also starting to crop up for the US Equity markets. As new potential opportunities arise in equities, we will be looking to take advantage of those opportunities. For the time being, there appears to be a break in the clouds, so we will be attempting to go for a refreshing swim in the ocean before more storm clouds come rolling in.

If you have any questions about the particulars of your portfolio, or would like to discuss the potential opportunities that I have seen arise within the equity market please give me a call. In the meantime, enjoy the rest of your summer.

Thank you for your business and support,

Greg Brissette

Vice President/Investments

Janney Montgomery Scott, LLC

P.S. If you think this type of information would be of benefit to anyone you know, please share this communication with them.

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