Q3 2010 Market Commentary (Excerpt)
November 12, 2010 S&P500 Index 1199

In the 3rd quarter of 2010, the S&P500 (SPX), a.k.a. "The Market" gained 7%, with other market indices rallying far more, especially in the Energy, Energy Services, Materials and Miners areas which saw ***increases of 18%-25% or more in the quarter!*** These are the same areas that I predicted would rise in my August 6th market commentary and for those of you who have actively-managed investment accounts, we profited handsomely from moving additional money into these areas near their lows thanks to the wonderful low-risk opportunity created by the Summer selloff. We also used that opportunity to increase our investment allocation to the market in general with an emphasis on Small-Cap. and Mid-Cap. Growth; two other areas that have far-outpaced the gains in the S&P500. The 3rd quarter was ***VERY GOOD*** for our investments!

The week after my August 6th commentary, the market began another selloff, almost reaching the July 1st, SPX 1010 lows. This time the market would not go below 1039 in late August, and on September 1st, the market exploded higher. Interestingly enough, there was a previous strong market "Up" day on August 2nd. So what were the major news or world events that seemingly occurred on or about the 1st of each month in July, August and September? Answer: ***NONE!***

Many of the giant market rallies and selloffs start on or about the 1st of the month because that is when the large financial institutions, hedge funds, college endowments and pension funds decide to reallocate money between their investments. Often there is a period of a few days prior to the start of the month when a market appears to "top" or "bottom", that is, when making a "top", it tries to push higher but cannot, setting the stage for a sell-off, or when making a "bottom", tries to push lower but cannot, setting the stage for a rally. The rally that began on July 1, started from a new 2010 low that was only slightly lower than the previous low in May, but instead of bringing in additional selling, major buyers emerged in the commodity stock sectors and drove prices higher. More buying followed which lasted into early August, when new selling emerged, driving prices lower into the end of August, but when the market indices could not break their July low, a "double-bottom" formed and it was "off to the races" on September 1 – "institutional portfolio reallocation day". If you look at this on a chart of the market as well as the charts of many other stocks, and market indices, you will see similar patterns upon which professional investors, speculators and institutions design and base much or their strategies for buying and selling. This is called "Charting" and is an extremely important part of "Technical Analysis", an incredibly valuable market approach – part art and part science, which I have been studying, and using for almost 30 years.

While the inter-market relationships are far more complex than just this correlation alone, they do tell much of the "tale". Remember, in order to make money as an investor, you need to understand which market relationships matter ***TODAY***, and when you have identified them, ***you need to stay with them until they change. It DOES NOT MATTER if the market relationships make sense to you or not, it ONLY MATTERS what makes sense TODAY, to the large institutional market "players" who routinely move the markets with their staggering sums of money.***

So, even if you believe as I do, that when our US $ is falling, which means that everything we import will cost MORE, including food, gasoline, heating oil, clothes, etc., and that many companies profit margins will be squeezed by rising commodities costs, and that interest rates will rise because our bonds are falling in value as we print far too much money to finance our debts, ***STOCKS CAN STILL GO UP AND KEEP GOING UP until they don't anymore!*** All it takes is for institutional players to keep shoveling in tens of billions of $ and they will continue to rise. ***HOWEVER***, when they start selling and taking money out, stocks will FALL, and keep falling until such time as they put money back in. That, in a nutshell, is how the stock market "works"

Therefore, in order to make money, you need to KNOW, ***IN ADAVNCE***, what the institutional players will be buying or selling and why, and when their buying and selling patterns are changing and why. Institutional players, as a group, tend to move ***en masse*** like a herd of elephants and ***often they are wrong – just think of the real estate, junk bond and commodities bubbles of 2007-8 and how that ended!*** However, it does not matter if YOU are right, your portfolio will still get trampled by "the herd" if you own what they own when they decide to sell. Likewise, you can own the best quality investments, but if they are not buying it, your portfolio will languish while what they invest in can skyrocket in value, ***EVEN IF IT MAKES NO SENSE!*** Unlike most mutual fund and stock investors, Institutional players "don't care about "buy and hold" or taxes. They get paid to make money and they can move $50,000,000,000 around the globe into100+ different markets and thousands of investments, in the blink of an eye with a single keystroke. Their "long-term" timeframes are often measured in DAYS and WEEKS, not months and years. An individual investor who still practices "buy and hold" can see ***a dozen or more major selloffs in their investment over the course of 2 or 3 years, and have NOTHING to show for it, or even LOSSES, EVEN IF THEY MADE A GOOD INVESTMENT!*** This is because of incredibly rapid technological changes that have caused the business cycle for a particular company or industry to become dramatically shortened, together with the fact that institutional investors have bought or sold these same investments many times pushing it up and driving it back down.

"Active Management" is all about research, constant monitoring and finding and taking advantage of opportunities in the "movements of the professional herd" so that we can buy when they are panic selling, and we can sell when they are euphorically buying in a "performance arms race" to not fall behind their performance benchmarks and lose their job.

In the volatility that we have seen in 2010, use of Active Management strategies have reduced client investment risk by selling in advance of market retreats and buying underpriced investments prior to major market rallies. It is a way of potentially increasing long-term investment returns with reduced risk, and, over the course of a 4-5 year business cycle, potentially helps to provide more stable and greater investment returns, than by simply buying and holding and hoping.

For a good illustration of this ***highly successful strategy***, go to www.rlsfinancialgroup.com and look at the performance graph on the home page which shows a very nice graphical comparison of how an RLS Actively Managed portfolio compared with the S&P 500 (a.k.a "The Market") over the past 5 years. Then look to the left margin, click on the BLUE link, "RLS Performance" and look at a comparison of how the Actively Managed RLS ETF and Mutual Fund portfolios compared to the S&P 500. Call me and ask about the 2010 results so far and how this can work for you and your needs.

I think that we are in the midst of a market "stall" at these levels (SPX 1200) and that there is increasing risk after the large market rally. I also believe that the institutional players will do their best to continue to plow money into the market between now and 12/31 in an effort to drive everything higher. This will cause other investment managers to feel tremendous pressure to "buy the dips" in a desperate effort to improve their 2010 performance relative to the market lest they fail to meet their performance benchmarks and lose their job. Since many of these professionals are paid multi-millions of dollars in Salary/Bonus each year, you can imagine to what lengths they will go to "catch-up" and preserve their job. If the market has outperformed ***them*** so far in 2010, they will do anything to keep buying more aggressively to keep up. If the market were to sell off, then they would do nothing and the market would fall further. This is a self-fulfilling prophecy and often is why the market either rises or falls in such dramatic fashion during the year, especially at year-end.

For those clients that have my firm ***ACTIVELY MANAGE*** their accounts, we were able to take advantage of the euphoria and then the subsequent panic, first by selling some investments ***BEFORE*** the large market drop (preserving and saving investment capital), and then by buying and adding to

Energy stock positions during the market panic and ***BEFORE*** the market rally (profiting handsomely on the ensuing rally).