Quick Update – 8/11/2010

Greetings Clients & Friends,

I wanted to provide a quick update regarding some tactical positioning I have been doing recently across each of the Smith Capital model portfolios. Back in the Quick Update I published near the beginning of July I discussed several reasons why I felt the stock market had gotten oversold and was ready to move higher in the shorter-term. Around that time I was putting more of our clients' capital to work in a variety of undervalued equities, equity ETFs, and equity related mutual funds, depending on the model portfolio.

Since that time, during the month of July, the global markets did rebound handsomely, which benefitted each of the Smith Capital model portfolios and associated client accounts. However, as August commenced numerous economic data has begun to reflect a slowdown in the rate of economic expansion. Also, with global stock markets advancing at a fairly strong clip during July, I felt the market was getting a little ahead of itself in the short-term.

So, near the end of last week I strategized selling some specific equity positions (select stocks within the Smith Capital Opportunistic Equity portfolio, and select ETF and fund positions within the SC Tactical ETF, SC Growth, and SC Moderate Growth portfolios). With the jobs report that was released on Friday, which came in lighter than what I was looking for, and with overall weakening conditions in equity market technicals, I pulled the trigger to sell several equity related positions and raise cash levels. With these actions we entered this week with elevated cash levels again across each of the Smith Capital model portfolios, but with an eye for re-deploying fresh cash as the market experiences a needed short-term pullback.

With the Federal Reserve's FOMC comments from yesterday suggesting the Fed also sees a slowing trend emerging, on top of a few more economic data points confirming this view, global stocks have continued to slide into today (Wednesday). Fortunately, due to our maneuvers last week, we are currently sitting on average cash levels between 20% - 50% depending on the model portfolio. The more aggressive, all equity exposed Opportunistic Equity portfolio is currently positioned with an average of 30% cash, the Tactical ETF portfolio is positioned with an average of 40% cash, and Smith Capital Growth portfolio average cash position is 25%.

Meanwhile, the more conservatively allocated Moderate portfolio, which has equity and bond exposure, is currently positioned with about 20% cash, and the very conservative Smith Capital Income portfolios, which are exposed nearly all to bonds, are sitting on an average of 10% cash. Portfolios that are more conservatively positioned with significant bond positions are performing very well even in this volatile environment due to recent strength in government bonds, and the continued demand for corporate bonds. While this is benefitting performance currently, as I have said this year in previous commentaries, I don't expect the party to last forever in the bond market. The current deflationary trends and concerns helps drive demand for bonds, along with the great chase for yields higher than cash yields. But bonds are getting expensive! So, I will be watching the inflationary and economic signals closely for when to actively start lightening up on these bond positions in our more conservative, income focused portfolios.

With respect to the stock market, while I started raising cash levels last week in anticipation of another short-term pullback, I don't expect another full-fledged correction, or even mini-correction to unfold. On days like today our higher cash level is nice, and the importance of our tactical, active portfolio management strategy is further highlighted. However, at this point I do still believe the global stock market will move higher in the intermediate-term, even in the face of softening economic data, provided signs of a double-dip recession don't emerge (which they haven't at this point). Interest rates are ridiculously low, corporate profits are strong, balance sheets are solid, dividends are rising, stock buybacks are increasing, and yet corporate publicly-traded stocks are still relatively cheap. So, on any significant market weakness I will be looking to put cash back to work in attractive values within stocks, depending on the model portfolio. Obviously, this "buy the dips" strategy will prolong only if the Smith Capital Allocation Engine (our proprietary multi-variate econometric model) is saying to stay more weighted toward stocks, which is currently still is.

To conclude, we are sitting on elevated cash levels across each of the Smith Capital model portfolios, which we increased the end of last week. This position is helping on a day like today. However, I will be looking to put some of this cash back to work in select areas of the stock market, via stocks, ETFs, and funds, depending on the model portfolio, as the market pulls back.

As always, thanks for the privilege of serving you and your families.

Sincerely,

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