



1026 Blacksmith Lane  
Collegeville, PA 19426  
Office: (610) 489-3018 . Fax: (615) 366-7463

## **June 2010 Monthly Newsletter**

### **April Showers Brought May Floods**

The uneasiness over the situation in Europe that I spoke about in my May newsletter continued throughout the month and gave investors a reason to take some money out of equities. It seems that investors, still feeling the effects of the technology bubble in the early part of the decade and the most recent financial crisis, have little appetite for risk. Even as U.S. corporate earnings and economic data continue to be strong, we saw a selloff of over 8% in the S&P 500 for the month of May.

The volatility index (VIX), which measures complacency in the markets, spiked over 45% for the month affirming that investors were unwilling to believe that the strength of the U.S. economy would continue in the wake of the crisis in Europe. Chicago-based Hedge Fund Research Inc. data for the month showed it was one of the worst months since the financial crisis for the managers followed by the index with them losing an average of 2.26%. They credit the loss to being long the equity markets and short the VIX. In simple terms, that means they thought the markets would go up and volatility would be low. When hedge funds get caught on the wrong side of the trade, it leads me to think that the swiftness of the selloff might have been driven more by individuals rather than institutions.

From historical perspectives, this correction is not abnormal. A recent report issued by Fidelity stated it has been 14 months from the start of this bull market to the time of the correction, which is in the range of averages. The correction came after an 80% gain in the markets, where the average time of correction is around when the markets reach a 57% gain. Therefore, it seems we were overdue from historical standards. The main difference is the swiftness of the correction. On average, the correction takes 54 days to surpass the 10% mark. This correction took only 27 days. I believe this is due to the still lingering memory of the last two major market declines and the resulting lower risk tolerance of the average investor.

Where do we go from here? I believe the markets may be range bound over the near term until investors get a handle on the potential effects of the European crisis and its effect on the U.S. economy. However, I believe that the U.S. economy continues to look strong and remain positive that the fundamentals will stay intact to provide a great opportunity for market returns in the second half of 2010.

I again stress that in this ever-changing political and economic environment, sensible diversification is the key to weathering any market uncertainties.

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