

Schultz Financial Mgmt Corp - Investment Commentary

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Dear Investors,

The unemployment rate climbed to 8.1% from 7.6% in January. That was the highest level in 25 years, and a result that topped forecasts. Despite a 2% gain in the last half hour of trading on Friday, the major stock market indexes sustained big losses for the week. The Dow and S&P 500 dropped 6.2 and 7% respectively for the first week of March. Since my last commentary on February 22nd, the Dow and S&P 500 have dived through the November lows, with the S&P 500 currently down 55% from its 2007 record high just 17 months ago. Year to date, both the Dow and S&P 500 are down 24%.

Our Investment Styles:

Dividend Income Stocks:

Our Dividend Income Stock strategy is a core basket of dividend paying value stocks and is normally intended to stay fully invested throughout a full business cycle. While we have had little exposure to the volatile financial sector, we were recently hurt in our overweight position in health care stocks which sold off in response to Obama's budget proposal to reduce Medicare payments for drugs and health care services. We continue to be overweight in health care and consumer staples, but have temporarily increased our cash position to 30%. According to Valuengine.com, health care stocks, transportation stocks, energy, and consumer staples are the most undervalued sectors.

Trend Following Stocks:

As I mentioned in my update two weeks ago, we had taken a defensive position in our trend following stock strategies. Nearly every stock market in the world is currently in a downtrend, with only Russia and Taiwan experiencing mild upward trends. We have 3% of our Global ETF investment style invested in those two countries, with the remaining 97% in money market funds.

Trend Following Bonds:

As the flight to treasury bonds persisted over the last couple of weeks, corporate bond yields rose and we switched out of our corporate bond funds into money market funds. We managed to hold most of our bond fund positions for 8-11 weeks and in most instances, realized some short term capital gains in addition to receiving a couple of monthly dividend payments. Our decision to exit these positions proved correct and these bond funds have continued to drift lower last week. The good news is that we will likely have another opportunity in the near future to re-enter positions in corporate bond funds at more attractive levels.

Our Current Outlook:

While we may get an oversold relief rally or bounce in stocks, I continue to believe that high yield corporate bonds offer much more of a compelling value for investors than stocks and will compete with stocks as cash comes off the sidelines into riskier securities. Short term (1-3 year) investment grade corporate bonds are particularly attractive with many yielding 6%-9% or more.

While it's easy to get discouraged with all the negative news, there will soon be great opportunities to earn attractive returns in both the equity and fixed income markets and we will take advantage of them.

Please give me a call if you have questions or comments about this investment commentary or if you would like to discuss your investment allocations.

Sincerely,

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