

Schultz Financial Mgmt Corp - Investment Commentary

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Dear Investors,

After a nice run, big-money investors took some profits today (Tuesday) as the major indexes dropped about 2% on increased volume. This was the first down day on higher volume in over 2 weeks. A lot has changed since I wrote my last commentary on March 9th, the very day that the S&P 500 closed at the lowest point since 1996 and 55% below the October 2007 highs. Since then, stock markets around the world have rallied, largely due to increased optimism in banking stocks, the same stocks that were also the biggest decliners just a few weeks earlier. Unlike previous short lived bounces, this rebound was accompanied with generally higher volume on up days and lower volume on down days, a healthier sign. While the S&P 500s recent market gains of 27% off the bottom may seem impressive, it is still in negative territory in 2009 and down 43% over the last 18 months.

Our Investment Styles:

Dividend Income Stocks:

Our core - Dividend Income Stocks investment style is a basket of dividend paying value stocks. The basket is normally managed to stay fully invested throughout a full business cycle. While we have had little exposure to the volatile financial sector during the bear market decline over the last year, we have increased our position in financial stocks, including banks over the last month. This current market rally has favored financial stocks, basic materials, and industrial stocks as investors have rotated out of more defensive oriented health care and consumer staples stocks (which we were overweight). As a result we lost a little ground to the Dow Jones Industrials (our benchmark) over the last month. According to Valuengine.com, health care stocks and transportation stocks remain the most undervalued sectors.

Trend Following Stocks:

As I mentioned in my newsletter last month, we held mostly cash and small positions in Russia and Taiwan ETFs which had just began upward trends. Since then, emerging markets stocks, particularly in Asia have been the global market leaders and accordingly, our trend following Global ETF basket has been and continues to be overweight in those areas. Our trend following basket of Large Cap stocks is currently invested in 20 stocks, including several foreign ADRs. Because the volatility of the stock market according to the VIX index is still 30% higher than what we like for being fully invested, we have kept our stock allocation between 50-70% in each of our trend following investment styles during this recent up-trend. The remaining portion is largely in high yield and emerging market bond funds which are also experiencing upward trends, but with less volatility.

Trend Following Bonds:

Switching out of corporate bond funds and into money market in late February proved to be the correct move, albeit temporarily. In the last couple of weeks we have again established a fully invested position in high yield corporate bond funds with yields in the 9-10% range. The new upward trend in high yield corporate bonds has been more subdued and less correlated with stocks compared to the last up-trend which only lasted a couple of months. I believe that this time we will be able to stick with our positions much longer.

Our Current Outlook:

Now that we got the oversold relief rally or bounce in stocks that I was looking for, continued gains will likely come with more choppiness and sector rotation that will be difficult to navigate. As I have said repeatedly, high yield corporate bonds offer much more of a compelling value for investors than stocks and will compete with stocks as more cash comes off the sidelines into riskier securities. Short term (1-3 year) investment grade corporate bonds are particularly attractive with many yielding 6%-8% or more.

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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