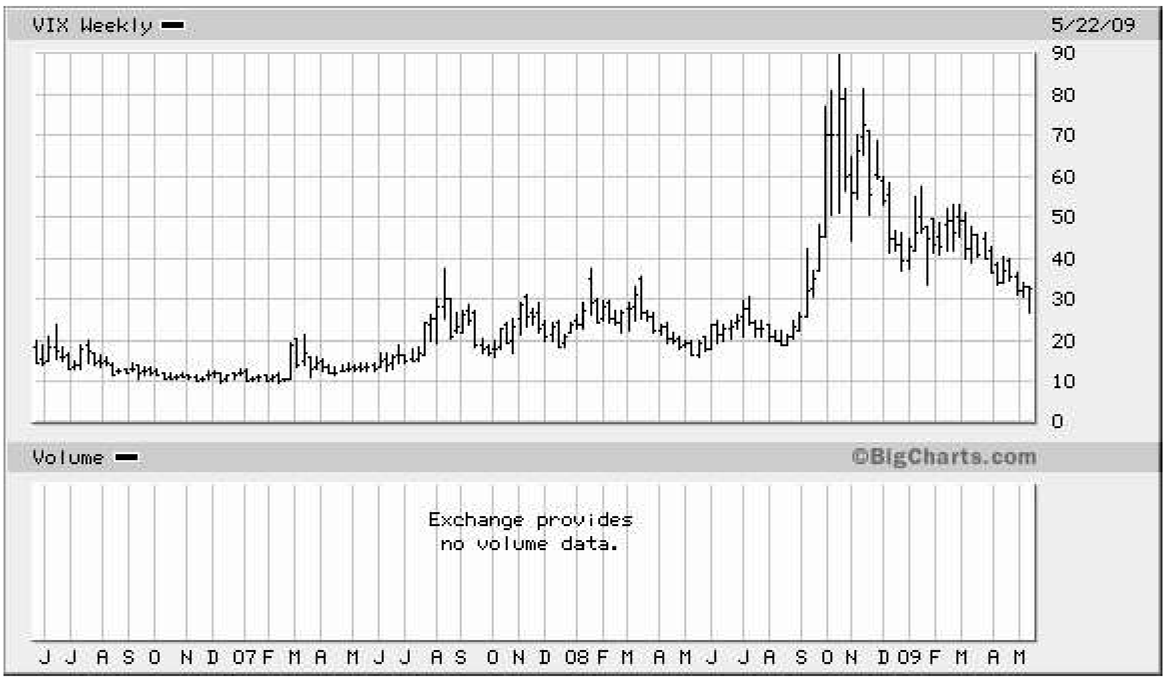
Schultz Financial Mgmt Corp - Investment Commentary Volume 6

05/26/2009

Dear Investor,

Since my last investment commentary on April 14th, the US dollar has fallen against most currencies, long term treasury bond yields have risen substantially, and commodity prices, particularly gold and oil have climbed higher. US stocks peaked on May 8th and have since declined about 4% on dollar weakness while most foreign stock markets have continue to forge ahead, making new highs. The Volatility Index ("VIX), a widely used gauge of market volatility dropped to its lowest levels since mid September 2008 suggests that market fear is abating.



Current Market Perspective:

Stocks: After a 37.5% rally off the bear market low on March 9th to its most recent high on May 8th, the S&P 500 has consolidated in a trading range, currently off 4.5% from recent highs. According to [valuengine.com]() the US stock market is now approaching fair value after having been about 30% undervalued a couple of months ago. The two month rally was fueled by more volatile high beta stocks as investors have bought beaten down stocks cyclical and financial stocks in anticipation of an economic recovery. Overall corporate earnings for the first quarter have faired better than lowered expectations, consumer sentiment has improved, and many banks, utilities, and REITs are successfully raising new capital in order to meet their debt obligations. Investor profit taking is now threatening the market rally. However, institutional investor and hedge funds that missed out on the recent rally may feel a need to buy on dips which could add some resilience to this market for several more weeks. Also, high yield corporate bonds have continued to perform well, an indication of underlying investor confidence in the US economy which bodes well for stocks in the near term.

Bonds: Yields on 10-year treasury notes climbed above 3.4 percent for the first time since November as investors have become about the record supply of Treasuries needed to pay for a mounting budget deficit. The 30 year treasury bond yield finished the week at 4.38%, its highest level in 2009. As long term treasury yields rise, upward pressure is put on mortgage rates. The S&P California Municipal Bond ETF, an index basket of CA municipal bonds with a 10.08 average weighted maturity has a current distribution yield of 3.93%.

Our Investment Styles:

Core - Dividend Income Stocks: Our core basket of twenty Dividend Income Stocks is managed with the intention of staying fully invested throughout a full business cycle. Our performance benchmark is the *Dow Jones Industrial Average*. I have recently increased our position to five stocks in the health care sector, the most undervalued sector according to valuengine.com (i.e., 23% undervalued). The average annual dividend yield of our basket of stocks is over well over 4 percent. We have recently benefited from the weak dollar since many of our holdings are foreign ADRs (foreign stocks traded on US stock exchanges

Trend Following Global ETFs: Our objective is to outperform the *All Country World Index ("ACWI")*, a global stock market index that includes the US, foreign developed countries, and emerging market countries. Emerging markets stocks have been the global market leaders and accordingly, our trend following Global ETF basket continues to be overweight in those markets. We have gradually taken some profits in stocks and have recently added new positions in gold, silver, and gold mining stocks in response to a new uptrend in precious metals. Our current allocations are approximately 50% stocks, 10% precious metals, and 40% fixed income including a small short position in 20 year treasury bonds that benefits from rising rates. Our Trend-Global ETF investment style has outperformed the ACWI index by 39% over the last 12 montsh (see chart below).

Trend Following Large Cap: Our trend following basket of Large Cap stocks is currently invested in 20 stocks, including several foreign ADRs (foreign company shares traded on US stock exchanges). Our performance benchmark is the *S&P 500 Index*. Because of the recent weakness in US stocks we have reduced our stock allocation to approximately 65%, with the balance in fixed income ETFs including a small short position in 20 year treasury bonds that benefits from rising interest rates.

Trend Following Bonds: We remain fully invested in high yield corporate bond funds with yields currently in the 9% range. High yield bond funds have trended higher with stocks over the last couple of months and have continued to perform well the last couple of weeks in the face of a weaker stock market and higher interest rates. High yield corporate bonds are generally credit sensitive rather than interest rate sensitive, meaning that they respond more to changing economic conditions and less to changes in treasury bond interest rates.

Current Outlook:

It is my opinion that the March lows were a retest of the November lows and that the long term bear market is over and a full retest of the March lows will not occur. Even if I am correct, a 15% correction in this rally down to the 780-800 level in S&P 500 index could easily occur within the framework of this new bull market. I expect that the easiest money to be made in this new bull market has already been made between March 9th and May 8th and continued gains will be more arduous for the broad markets. However, there should be great opportunities for active managers that invest in new market leaders as we do in our trend following investment styles.

High yield corporate bonds continue to offer much more of a compelling value for investors than stocks at these levels and will compete with stocks as more cash comes off the sidelines into riskier securities. With very low rates in money market funds and bank CDs, short term (1-3 year) investment grade corporate bonds are particularly attractive with many yielding 5%-7% or more.

Dear Richard,

Since my last investment commentary on April 14th, the US dollar has fallen against most currencies, long term treasury bond yields have risen substantially, and commodity prices, particularly gold and oil have climbed higher. US stocks peaked on May 8th and have since declined about 4% on dollar weakness while most foreign stock markets have continue to forge ahead, making new highs. The Volatility Index ("VIX), a widely used gauge of market volatility dropped to its lowest levels since mid September 2008 suggests that market fear is abating.

Current Market Perspective:

Stocks: After a 37.5% rally off the bear market low on March 9th to its most recent high on May 8th, the S&P 500 has consolidated in a 5% trading range with a negative bias. According to valuengine.com the US stock market is now approaching fair value after having been about 30% undervalued a couple of months ago. The two month rally was fueled by more volatile high beta stocks as investors have bought beaten down stocks cyclical and financial stocks in anticipation of an economic recovery. Overall corporate earnings for the first quarter have faired better than the low expectations, consumer sentiment has improved, and many banks, utilities, and REITs, are successfully raising new capital in order to meet their debt obligations. Investor profit taking is now threatening the market rally. However, institutional investor and hedge funds that missed out on the recent rally may feel a need to buy on dips which could add some resilience to this market for several more weeks. Also, high yield corporate bonds have continued to perform well, an indication of underlying investor confidence in the US economy which bodes well for stocks in the near term.

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

Sincerely,

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