

As noted in conclusions from our last two Investment Committee Meetings, CFM has had a bias toward increasing stock allocation. The bank stress tests have been completed and the bankruptcy reorganization of GM and Chrysler are in process. While there remain significant challenges for the economy, stock markets have already factored in the outcomes of these two events.

The S&P 500 recently crossed its two hundred day moving average which is another significant and positive tactical indicator CFM has been monitoring. Ned Davis Research (NDR) recently increased their stock allocation to a maximum of 70 percent. Another research firm, InvesTech, tactical allocation is even higher for stocks and fundamentals suggests that we have a long road to recovery but a bottom is most likely in place.

CFM is in the process of revisiting minimum bond allocation for clients' portfolios. Bond minimums will be used to determine our maximum stock allocation. While CFM has a goal of proportionately mirroring NDR tactical allocation recommendations, we want to move in that direction incrementally. Stock markets have already had significant increases from the March 9th lows and a near-term correction remains a possibility. We plan to increase stock allocation approximately one-third per month for June, July, and August so that by September most portfolios are at their target equity allocation. This strategy mitigates downside risk in the event of a near-term correction.

NDR recently reiterated their opinion that stock markets are in the midst of a cyclical (short-term) bull rally that will last another six to twelve months. They are also of the opinion that we are in the midst of a secular (long-term) bear market that started in 2000 and may not end until 2015. Accordingly they expect to move toward bonds/cash when tactical indicators turn cautious, perhaps in the second half of 2010. In conjunction with NDR recommendations affirmed by other tactical analysts and fundamentals CFM will rebalance in a timely and proportionate manner.

Trades may occur in your portfolios over the next three months that will incrementally rebalance to NDR recommendations. If you have concerns about your specific trades and/or bond minimums please contact us.