

06/30/2010 Quarterly Newsletter

Discipline is the key to success

With every approach to the stock market, bear in mind that there will always be periods of over-performance and periods of under-performance. Here at Disciplined Wealth Management (DWM), our goal is to concentrate your portfolio in the leading asset classes while avoiding the performance-sapping lagging asset classes; over the long term, our approach strives to provide you with better performance compared to the overall stock market average (the S&P 500) and with less risk. In summary – stay disciplined during times of under-performance; don't become emotional and abandon a proven long-term strategy during a usually short period of under-performance, but stick with it and let the strategy work for you. If someone says they are never wrong, they have just proven themselves otherwise.

General commentary –

Emotional Investing – Worth Repeating

The roller coaster nature of the stock market may cause you to react in ways contrary to your portfolio's best interest. When the market is at the top of its curve it may elicit euphoria, but that's also when the market is most volatile and a portfolio may be exposed to the most risk. Conversely, while market downturns often cause investor anxiety, they may be opportune times to buy at sale prices – potentially positioning a portfolio for greater returns on an upswing.

You may be among the many investors around the world who thought they had it rough in 2007 and 2008. However, keep in mind a majority of DWM clients experienced only half the loss that the overall stock market experienced. The downturn of '07 and '08 came after a long bull market was behind you; it was easy to forget the market could go down. Not DWM. I watch the market every day and run my analysis to keep you in tune with the trend. Just as that Old Wall Street saying goes, "The Trend is your Friend" as long as you're on the right side of it.

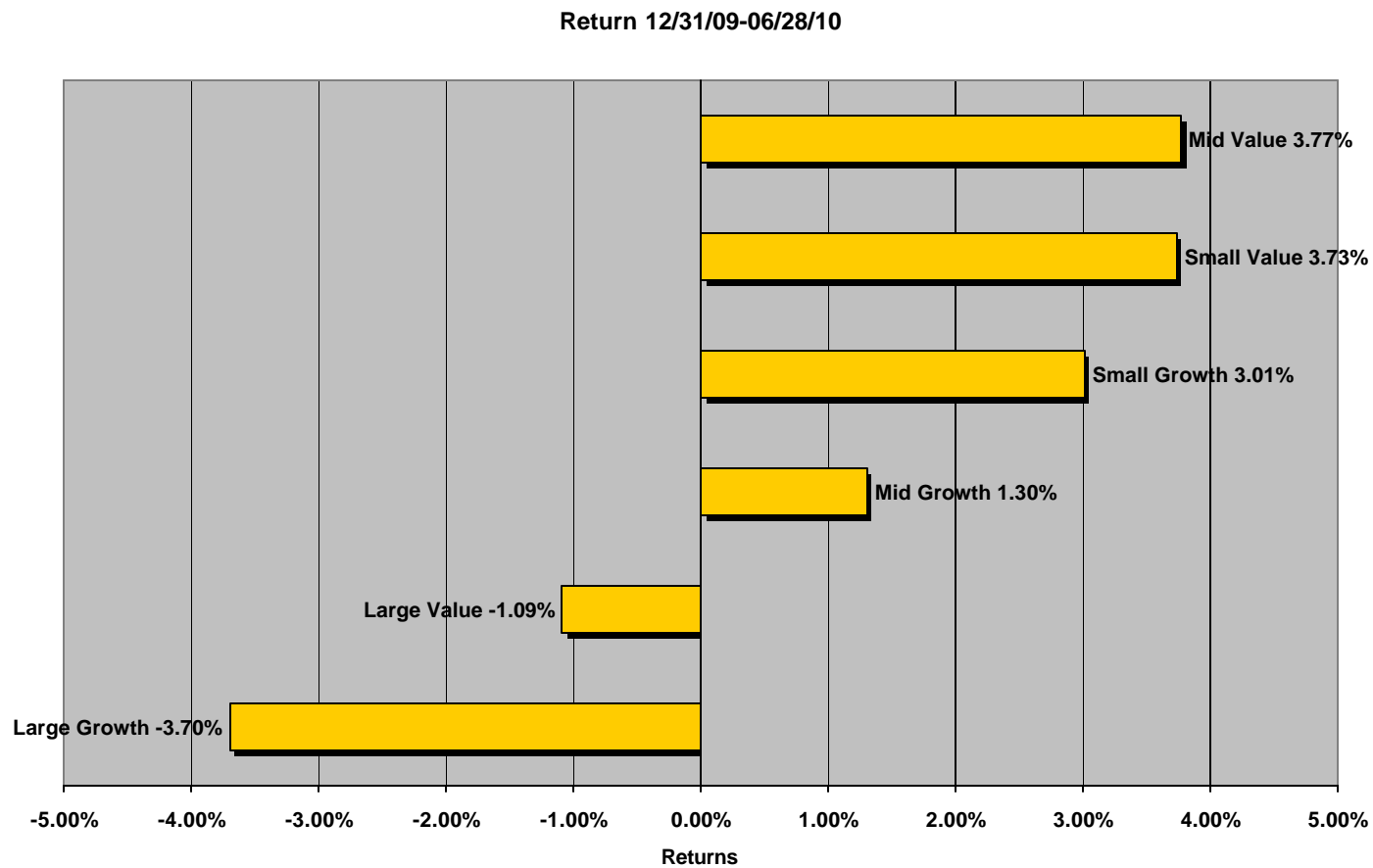
With great gains in '09 now behind us, many investors are once again becoming complacent. Is one year enough to make investors forget how awful '07 and '08 were? Not at DWM. We'll be ready to protect your hard-earned investment dollar when the market decides to head south again. When and how much? Nobody knows. However, I can guarantee it will go down again.

Keep emotions in check by remembering why you hired DWM.

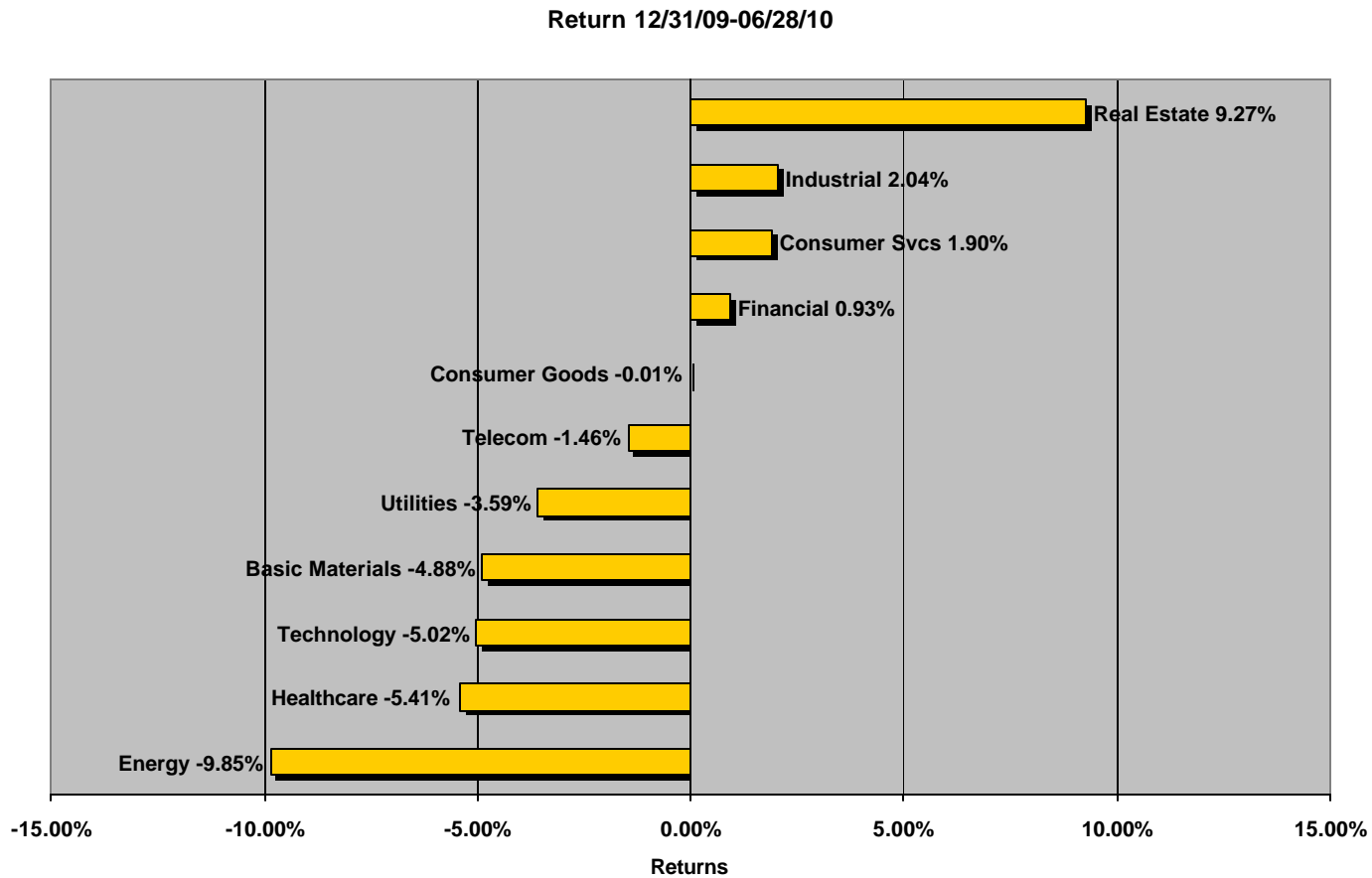
As we go to press, the overall market environment indicator remains neutral. We will continue to monitor this indicator and make the necessary adjustments. For an individual performance review please call 303-471-5189.

Please note that, in the following pages, the performance charts for certain asset classes are for illustrative purposes only, and do not reflect the ranking system utilized by DWM.

Style Boxes – As of 06/25/2010, Small-Cap Value experienced the largest move upward as it jumped two spots in my relative strength work from the third spot to the number one position. Mid-Cap Value maintained its strong hold on the number two position. Small-Cap Growth jumped two spots in my rankings to claim the final spot at number three. Mid-Cap Growth experienced the largest drop in my rankings, falling three spots from the number one position to the number four position, which removes it from a buy consideration. As usual, we will continue to rely upon our time-tested relative-strength analysis to guide our investments in Style Boxes.

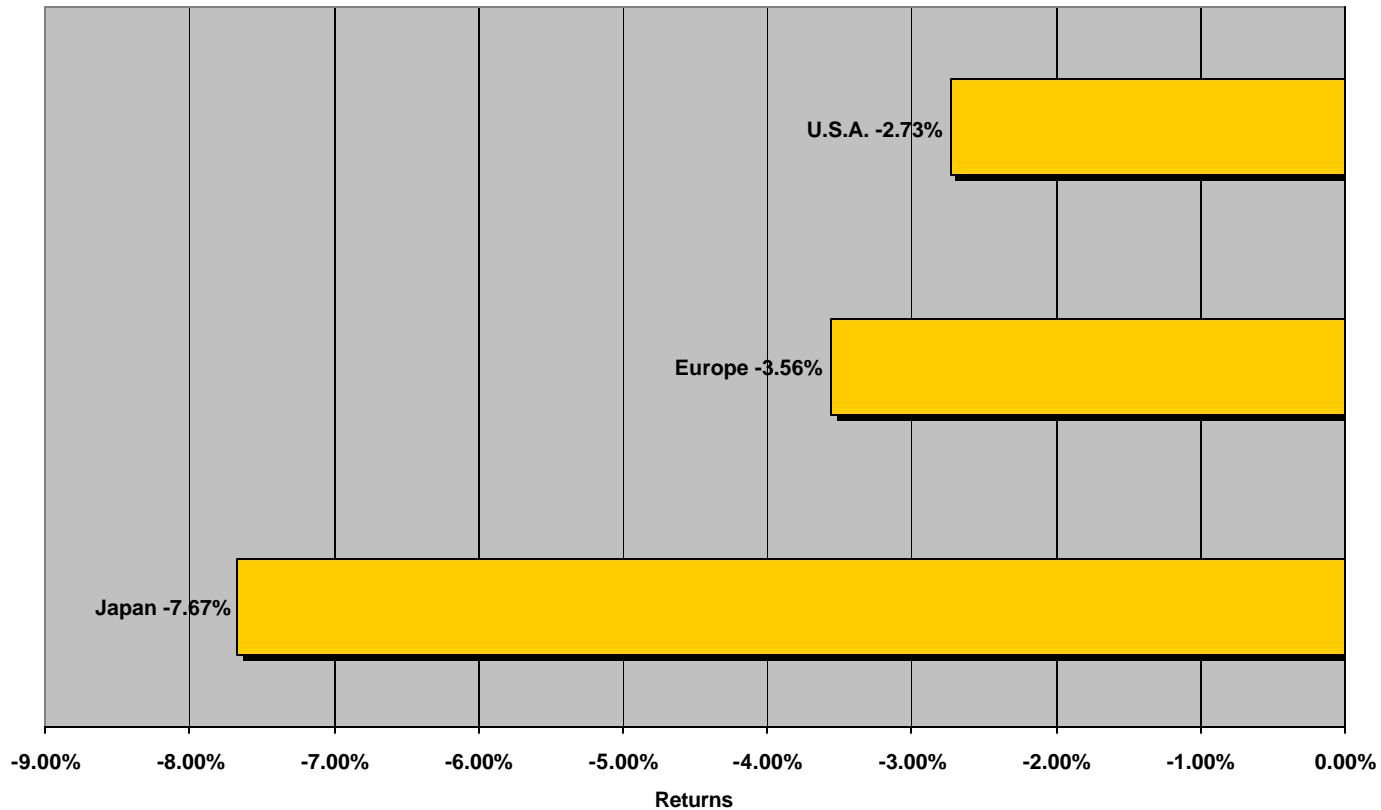


Sectors – As of 06/25/2010, my relative strength surrounding sectors showed quite a few changes in the second quarter. However, Real Estate continues its strong hold on the number one spot. Consumer Services fell one spot from number two to claim the third position in my ranking system. Industrial Materials jumped two spots to claim the second spot in my relative strength work. Healthcare experienced the largest fall in my ranks, dropping five spots to the number ten position. Financial Services experienced the largest move upwards, jumping four positions to claim the fourth spot in my ranks, but still would not be considered a buy candidate. As usual, we will continue to rely upon our time-tested relative-strength analysis to guide our investments in Sectors.



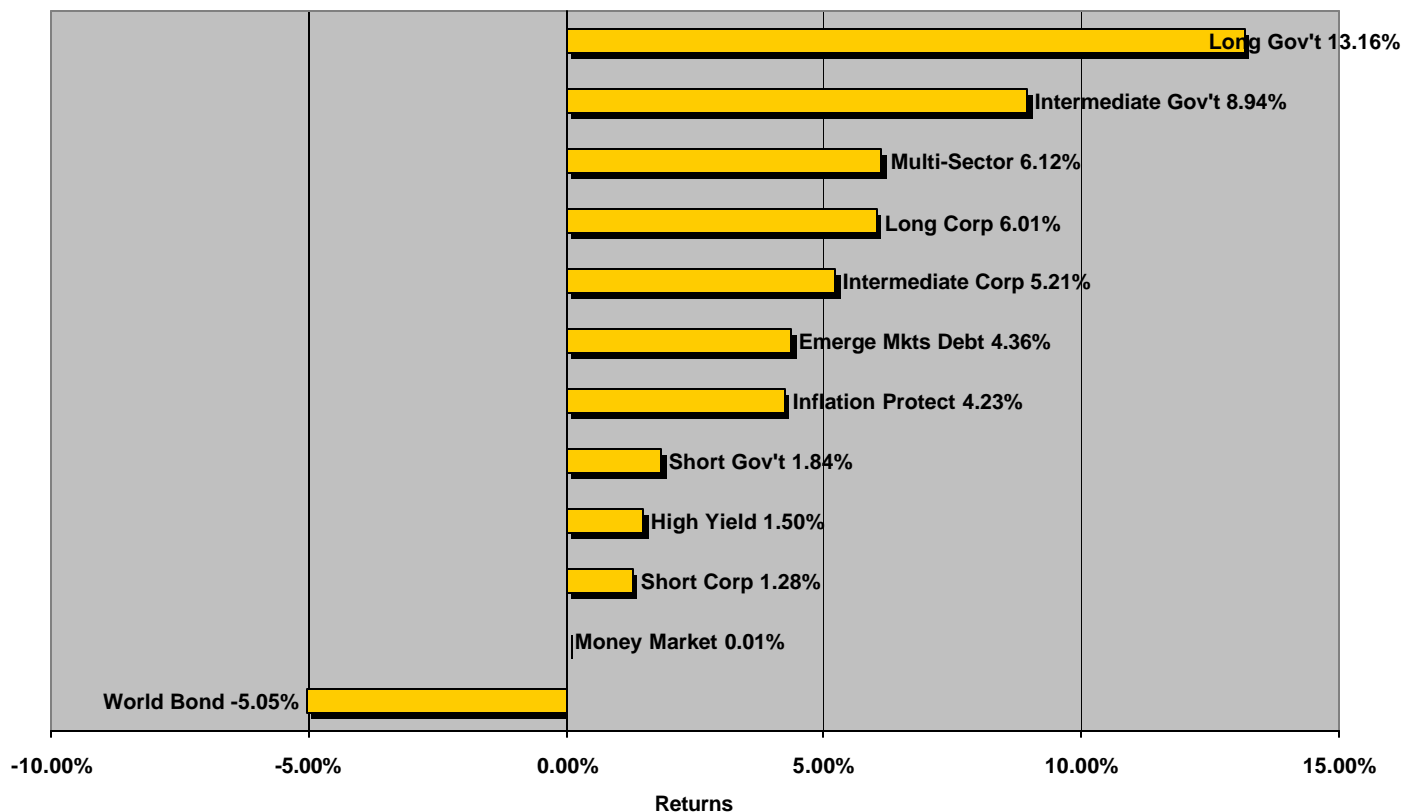
Internationals – As of 06/25/2010, there were no changes in my relative-strength work this quarter. The U.S.A. continues its strong hold on the number one spot. Europe is at number two and Japan at number three. This is a great place to look for change in leadership relative to last year. International markets were the place to be to add alpha last year – Boy how things have changed as the chart below reflects. Just goes to prove the point that one must stay flexible and ready and willing to adapt to the ever-changing marketplace, which is exactly what you hired Disciplined Wealth Management to do for you. As usual, we will continue to rely upon our time-tested relative-strength analysis to guide our investments in Internationals.

Return 12/31/09-06/28/10



Bonds – As of 06/25/2010, there were a lot of changes surrounding bonds in the second quarter as Long Gov't Bonds, which held the bottom position at the end of the first quarter, jumped an impressive eleven spots to claim the number one position in my relative strength work. Multi-Sector Bonds fell two spots to the number three position and remain a buy candidate. High-Yield Bonds on the other hand fell seven spots to the number nine position and are no longer considered a buy candidate. As usual, we will continue to rely upon our time-tested relative-strength analysis to guide our investments in Bonds.

Return 12/31/09-06/28/10



Forecast –

Long Consolidation?

The S&P 500 is currently trading at the same level it was six months ago. Since hitting 1130 the S&P has been stuck between a low of approximately 1040 and a high of 1210, give or take a couple of points.

So with no real net progress in six months we are left with the question, Has the last six months' consolidation been just that, a rest before the market again moves higher, or is that a rolling top like the market went through in the second half of 2007?

Many market strategists continue to predict 1300 to even 1400 on the market by year end. From current levels that is a nice rally of 7% to 16%. It could easily be done on rising earnings with P/E ratios remaining virtually unchanged.

The Bears say the whole rally is based on an economic recovery coming from government stimulus which is now waning, and therefore so is the recovery. Many talk of a retest of the 800 level which represented the 2002 low and an area that the market temporarily bounced off in November through December 2008.

Fortunately, we do not have to guess or take sides. The Overall Market Environment Indicator (MEI) quantitatively measures the trend and momentum of +100 industry groups represented by thousands of different companies. Currently, the MEI is flashing caution; that is why many of the DWM models moved from 100% equity to just 50% invested.

Based upon experience we would expect that if the rally resumes, the MEI will quickly follow with a buy signal and we will be back participating fully, not just 50%. However, if the market continues to falter, it is comforting to know that we have reduced our equity exposure by half.

Will the Bulls or Bears take control? No one knows for sure and only time will tell. DWM, for one, will continue to rely upon its tactical tools to stay in line with the market's fluctuations. Always remember: The key to investment success is to stay disciplined and flexible in an ever-changing market environment. The moment you start to second-guess your decisions is usually when you shouldn't.

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Sources:

Style box data = i-Shares Russell Indexes. Source: Investors FastTrack.

Sector data = DJ US Sector Indexes via i-Shares. Source: Investors FastTrack.

International data = EuroTop 100 Index for Europe, Tokyo Nikkei Index for Japan, S&P 500 Index for U.S.A. Source: Investors FastTrack.

Bond data = Various bond mutual funds and exchange traded funds (ETF). Source: Investors FastTrack.