

## **09/30/2010 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 –**

### **Double Dip**

Banks easing lending standards is one thing, but many investors watching the economy have asked, who is borrowing? The trend is likely more favorable than you might think. Jerry Webman, senior investment officer with Oppenheimer Funds, recently revealed a chart showing that demand for loans by small businesses has stabilized and the nation's small banks, whose business loans often go to small firms, have reported a nascent recovery in outstanding business loans. Small business expansion, which has lagged in the current recovery, is of prime importance because small businesses typically account for over 50% of U.S. jobs.

Jerry said, "I've said it before and I'll say it again: The United States is not going back to the leverage-induced growth of the past two decades. And for that we should rejoice. But all the talk about double-dip recessions and Japanese-style deflation is exaggerated. Good quality business credit might just get this thing going yet."

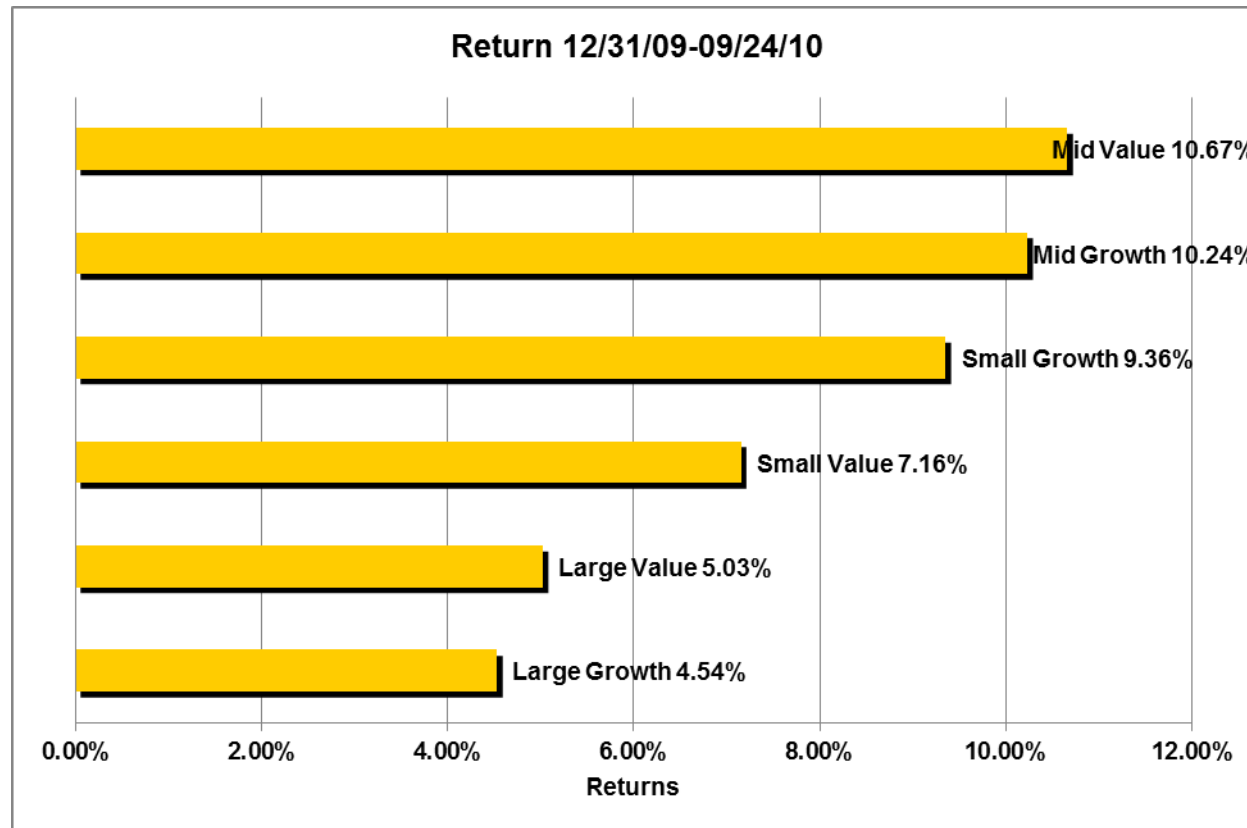
If this holds true, a double dip in the economy is very unlikely. However, keep in mind this is just one argument against this happening.

As we go to press, the overall market environment indicator remains bullish. We will continue to monitor this indicator and make the necessary adjustments.

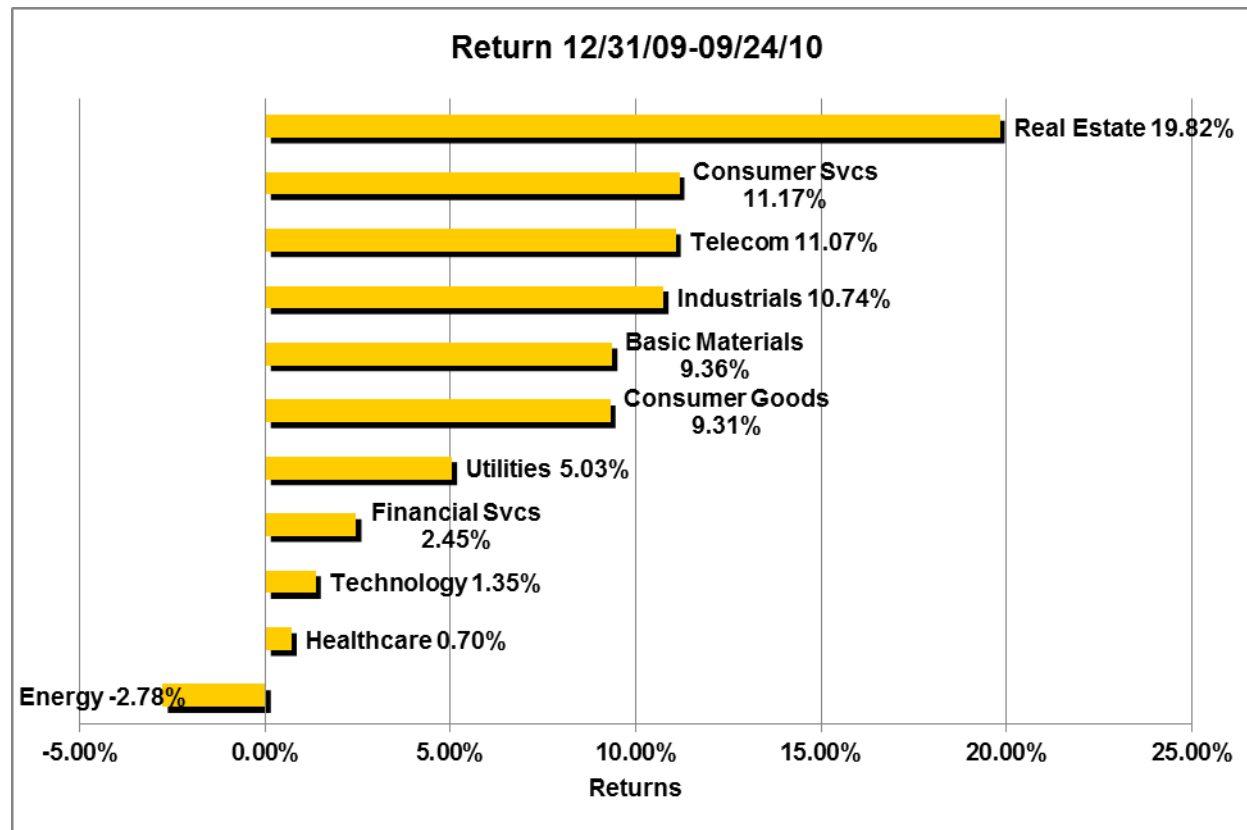
For an individual performance review please call 303-471-5189.

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.

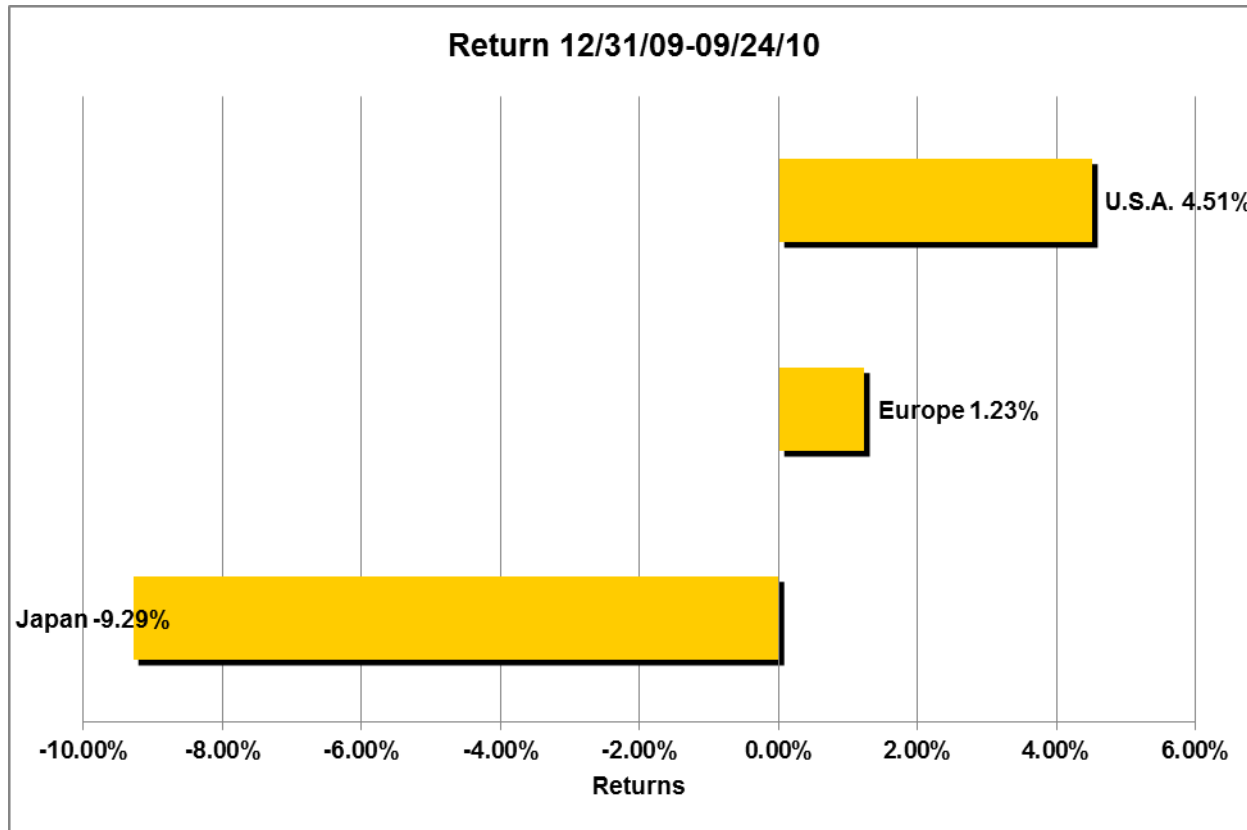
**Style Boxes** – As of 09/24/2010, Mid Cap Value fell two spots to claim the third position and remains in the top portion of my relative strength work. Mid Cap Growth had the largest move up, jumping three spots to claim the number one position. On the flip side, Small Cap Value experienced the largest drop in my relative strength work, falling four positions from the number two spot to claim the last spot at number six. As usual, we will continue to rely upon our time-tested relative-strength analysis to guide our investments in Style Boxes.



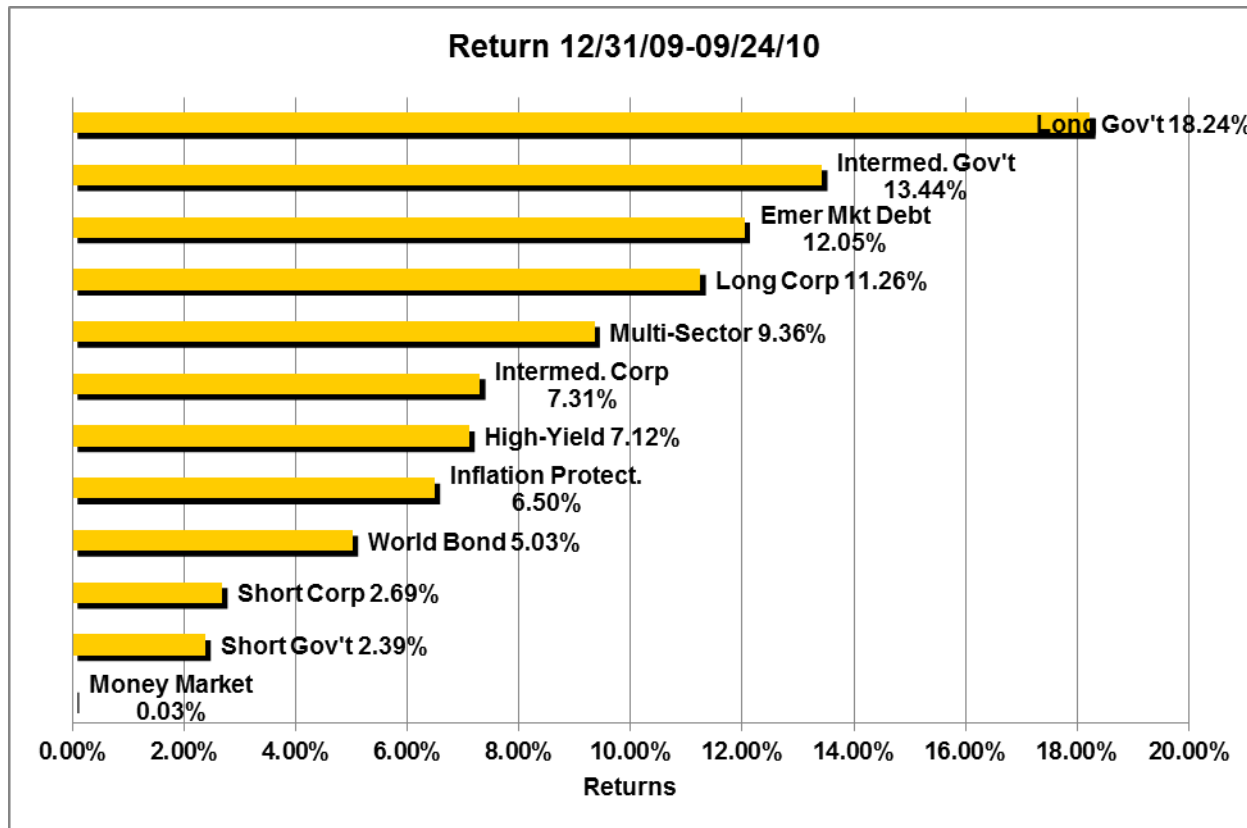
**Sectors** – As of 09/24/2010, Real Estate fell one position to claim the number two spot in my relative strength work and remains in the top portion of my ranks. Basic Materials experienced the largest move up in my relative strength work, jumping six positions to claim the fourth spot and keeping it out of the top portion of my ranks. Telecommunications jumped five positions to claim the number one spot, and Utilities jumped four spots to claim the number three spot, rounding out the top portion of my relative strength work. Financial Services experienced the largest drop in my ranks, falling six positions to claim the weakest spot in my work at number eleven. As usual, we will continue to rely upon our time-tested relative-strength analysis to guide our investments in Sectors.



**Internationals** – As of 09/24/2010, Europe and the United States swapped positions in my relative strength work as the United States jumped one spot to claim the number one position as Europe fell one spot to claim the number two position. Japan remains the weakest international position with no change in my relative strength work at number three. As usual, we will continue to rely upon our time-tested relative-strength analysis to guide our investments in Internationals.



**Bonds** – As of 09/24/2010, the top three positions were unchanged from the previous rankings as Long Term Gov't continues its strong hold on the number one position. Intermediate Term Gov't remains as the second strongest and Long Term Corp rounds out the top portion of my relative strength work at number three. World Bond experienced the largest move up in my ranks, jumping seven spots to claim the number five spot. There was a tie between Multi-Sector and Intermediate Term Corp for the largest drop in my ranks as both positions fell three spots. As usual, we will continue to rely upon our time-tested relative-strength analysis to guide our investments in bonds.



**Forecast –**

## **Fourth Quarter Market Magic**

As mentioned in last quarter's Newsletter, the long consolidation continues. However, there's still hope that 2010 will turn out to be a decently positive year for Wall Street. As mentioned below, the 2010 *Stock Trader's Almanac* has a title named Fourth Quarter Market Magic.

The following four paragraphs and table are directly from the *Stock Trader's Almanac*.

Examining market performance on a quarterly basis reveals several intriguing and helpful patterns. Fourth quarter market gains have been magical, providing the greatest and most consistent gains over the years. First quarter performance has been a respectable second. This should not be surprising, as cash inflows, trading volume, and buying bias are generally elevated during these two quarters.

Positive market psychology hits a fever pitch as the holiday season approaches and does not begin to wane until spring. Professionals drive the market higher as they make portfolio adjustments to maximize year-end numbers. Bonuses are paid and invested around the turn of the year.

The market's sweet spot of the four-year cycle begins in the fourth quarter of the midterm year. The best two-quarter span runs from the fourth quarter of the midterm year through the first quarter of the pre-election year, averaging 14.4% for the Dow, 15.0% for the S&P 500, and an amazing 24.0% for the NASDAQ.

Quarterly strength fades in the latter half of the pre-election year, but stays impressively positive through the election year. Losses dominate the first and third quarter of post-election years and the first and second quarters of midterm years. Once again, the global financial crisis trumped seasonality, hammering the fourth quarter of 2008 onto the list of 10 worst quarters of all time.

## QUARTERLY % CHANGES

	Q1	Q2	Q3	Q4	Year	Q2-Q3	Q4-Q1
<b>Dow Jones Industrials (1949 to March 2009)</b>							
Post	-0.3%	0.9%	-0.7%	3.0%	3.2%	0.1%	4.5%
Midterm	1.3%	-1.2%	-1.2%	7.3%	6.4%	-2.1%	14.4%
Pre	7.6%	5.6%	2.5%	1.6%	17.7%	7.5%	1.9%
Election	0.3%	1.2%	0.4%	2.3%	4.6%	1.6%	1.2%
Average	2.0%	1.6%	0.2%	3.6%	8.0%	1.9%	5.8%
<b>S&amp;P 500 (1949 to March 2009)</b>							
Post	-1.2%	1.2%	-0.5%	2.8%	3.3%	0.7%	3.6%
Midterm	0.8%	-2.2%	-0.6%	7.9%	6.0%	-2.5%	15.0%
Pre	7.6%	5.6%	2.1%	2.5%	18.3%	7.2%	3.1%
Election	0.7%	2.1%	0.6%	2.1%	6.1%	2.6%	1.0%
Average	1.9%	1.7%	0.4%	3.9%	8.5%	2.1%	6.1%
<b>NASDAQ Composite (1971 to March 2009)</b>							
Post	-3.3%	4.8%	-0.3%	3.6%	4.0%	4.2%	5.0%
Midterm	1.7%	-2.5%	-7.1%	8.5%	2.0%	-8.9%	24.0%
Pre	14.7%	8.9%	3.1%	4.9%	34.2%	12.1%	7.8%
Election	2.5%	1.3%	0.6%	-0.6%	4.8%	2.4%	-3.1%
Average	3.9%	3.4%	-0.8%	4.1%	11.3%	2.8%	8.2%

Will the fourth quarter be the saving grace for Wall Street this year? 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.