



## Healthy Start

**Stocks ended higher in January** with the S&P 500 and the DJIA ahead 1.5% and Nasdaq 2%. A good start for the year gives a positive reading of the widely followed January barometer, indicating a positive

year to follow. Positive returns in January have correctly predicted an up year over 80% of the time. Not surprising since trends in motion tend to continue more often than not, and the long-term trend of the stock market is up.

But regardless of the overall trends, Upgraders have a distinct advantage because there is always some area of the market bringing in good relative returns. Our job is to identify what's working in the current environment, whatever that may be. Since the picture is only clear in hindsight and no trend is a straight line, the best we can do is follow closely and make continual adjustments to align our portfolios with winning funds.

New funds are now rising in the ranks and leadership may be rotating. The long anticipated rotation away from small-cap fund leadership may be taking hold. Looking at group averages, mid-caps were the leading size group last month, followed by large-caps with small-cap funds coming in last.

Another significant shift appears to be forming as growth funds rise in the ranks. Value funds have led by huge margins since 2000 but now we see a combination of growth and value funds leading. Although large value funds were the best performing group of all nine domestic size and style categories for the past 12 months, most recently they are sharing the limelight.

One consistent trend was real estate funds continuing their long winning streak and once again topping the domestic sector funds last month. REIT funds averaged 25% over the past five years, 35% for the last 12 months and 7% last month.

Other than real estate, the strongest areas so far this year are relative newcomers, different than previous year leaders. Formerly weak areas like health care and communications funds were pockets of strength in January, and new life may be developing in technology funds.

Sectors like energy, utilities and financials have turned into laggards. Energy and natural resources funds are now near the bottom of the ranks as the multi-year uptrend in commodity prices appears to have stalled.

International funds had a stiff head wind from the strengthening dollar last month but remain highly ranked. As commodity prices fell, so did emerging markets funds, but they've largely recovered from steep drops early in the year.

Upgraders stay with winning funds in a consistent and disciplined manner.

We found that approximately 68% of the gains realized were long-term, and just 32% were short-term. This includes gains paid out by the funds held in the portfolio. These figures correspond to our findings of a year ago, when we examined after-tax returns for the prior five-year period.

To make these calculations we assumed a maximum federal tax rate of 36% on short-term capital gains and income, and a 20% rate on long-term capital gains prior to May 2003 and 15% after that date. We do not assume a complete sale of either portfolio at the end of the period. \*

**As tax time is upon us** we wanted to inform you that you may qualify to make a Traditional and/or Roth IRA contribution, even if you are contributing to an Employer Plan.

You can contribute to a retirement plan from your self-employment earnings, even if you are employed somewhere else.

For couples with one income; if one of you is employed, the non-working spouse can make IRA contributions based on the working spouses' income.

For additional information regarding any of these topics, please contact us.

Thank you for your business...

P. Michael Valley II

\*Disclosure: Whenever you invest, you are at risk of loss of principal as the market does fluctuate. Past performance is not indicative of future results. Market Leadership numbers are provided by DAL Investments. You may obtain additional information from [www.noloadfundx.com](http://www.noloadfundx.com). Wall Street Financial Group, Inc. is not responsible for any information obtained from this website.

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