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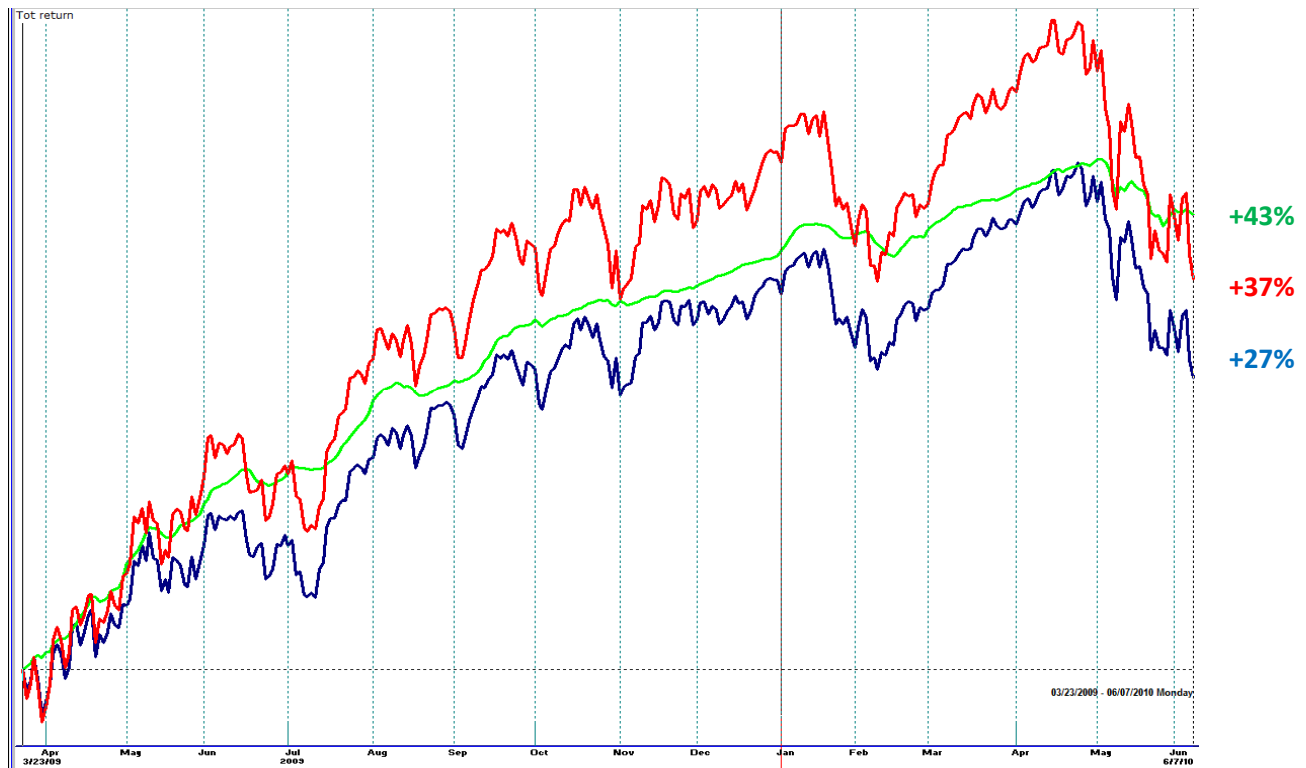
Volatility Creeps Into the Domestic Corporate High Yield Bond Market

6/08/10

Long time readers of this commentary will recognize the below chart. It is a comparison of an average of domestic high yield corporate bond mutual funds (HY) compared to an average of some widely followed major equity indices and the S&P 500 Index. The chart starts March 23, 2009, which was two weeks after the March 9, 2009 market bottom. As HY has done a couple times since that March 2009 bottom, it again has outperformed equities on a total return basis for the period. More importantly, HY has done so with considerably less volatility – the green line in the chart is by far the smoothest; that is the average of domestic high yield corporate bond mutual funds!

March 23, 2009 to June 07, 2010 – Equities versus High Yield Corporate Bonds

The Red Line is an equally weighted index composed of five major global equity indices (20% S&P 500 Index, 20% Russell 2000 Index, 20% Nasdaq OTC Composite, 20% iShares MSCI EAFE Index, 20% iShares MSCI Emerging Markets Index). **The Green Line** is a high yield equally weighted index composed of 220 domestic high yield corporate bond mutual funds. **The Blue Line** is 100% weighted S&P 500 Index.



Mar 23, 2009
Source:Fastrack

July 1, 2009

Sept 1, 2009

Nov 1, 2009

Jan 1, 2010

Mar 1, 2010

June 07, 2010

Of course it should be noted that we have reduced our investments in HY in the past couple of weeks and have raised the cash holdings. Volatility has leaked into HY at the time of this writing and that volatility was enough for Hanlon to seek more stable investment returns in money market type investments. Yes, we know that money markets are paying little interest, if any, but as Will Rogers famously noted “I am more interested in the return of my investment, then the return on my investment”. Are today’s money markets a strategy for the long-term? No. But in these markets, yes, we will accept those returns for today.

Please realize that:

- ✓ In March 2009 our research and indicators identified domestic corporate high yield bond funds as the best risk-adjusted asset class. This has worked out well.
- ✓ Our research and indicators kept us out of the equity rally this year, which has reversed and become equity market losses now.
- ✓ Capital preservation, to the extent possible, with no guarantees of course, continues to be a very important pursuit.

We approach the management of your portfolio with great importance.

Thank you for the opportunity to be of service.

Thank you,



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