

### PORTFOLIO UPDATE

The RCM portfolio has continued its upward march. During the first 9 months of 2009, the RCM portfolio was up 26.0% (net of all fees), compared to a rise of 19.3% for the S&P 500 Index. Our emphasis on broader diversification and yield is generating results. Currently, the annual yield of the portfolio remains about 6%.

As for risk, market volatility has continued to cool off, as has the RCM portfolio. The risk index for the portfolio measures 99, about in line with the market (which is defined as 100).

### COMMENTARY

Now that the market hysteria has settled down, it seems like a good time to step back and take an appraisal. Maybe we can get a more calm assessment of where the market has been and where it might be going.

Attached are two graphs that give a bird's eye view of the stock market. Figure 1 shows the stock market in the 1970's. Long time readers of this column know that this era is a popular topic for me. This is an interesting period of time when the stock market stopped working. The stock market stalled and for nearly 14 years went nowhere. In Figure 1, the red line shows the actual stock market index, the green dotted line shows the market peak of 1968 that wasn't conquered definitively until 1982, and the blue line shows the U.S. economy.

Why did the stock market stall for so long? It wasn't because of a flat economy. The blue line reveals that the economy was growing the entire time. In fact, it nearly quadrupled during those 14 years. A growing economy does not assure a rising stock market. There are several culprits for the lackluster market. High inflation is the primary cause. But, high tax rates, unfavorable foreign markets, and generalized political and social malaise played their part. More interestingly, the 1970's gives us important insight into a little-appreciated feature of the stock market – the range-bound market.

Over the long haul, the stock market goes up. Every investor knows that. However, the market doesn't rise smoothly, it follows a stair step pattern, rising for a few years, then leveling out for a while. These stair steps are long *secular* trends. Each secular phase of the stair step pattern lasts about 16 years (more or less). Buried within this broader secular pattern are shorter *cyclical* bull and bear markets. The level phase of the stair step pattern is the range-bound market, a period of time when the market makes no net progress. In the 1970's, the range-bound phase lasted 14 years. Buried within this range-bound phase, there were four cyclical bull and bear markets. In the 1982, the market began a new secular bull trend that lasted until 2000.

During a rising trend – like the secular bull market between 1982 to 2000 – you want to “own” the market. That is, buy-and-hold is a winning strategy. However, in a range-bound market, you just want to “rent” the market. Be ready, to move out when the neighborhood falls apart.

Fast forward to the present era and we have Figure 2, which shows the stock market during the most recent decade. The chart pattern resembles the 1970's. The green dotted line marks a market peak from year 2000. There has been one attempt (in 2007) at overcoming that peak and two nasty troughs. Since March 2009, we have been enjoying a new cyclical bull market rebound. This a classic range-bound market. How long this phase will last no knows, but I suspect we are only about halfway through. In the meantime, we want to rent the market, not own it.

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Dr. Rollins has earned both the Chartered Financial Analyst® designation and Certified Financial Planner™ credential. He was awarded the CFA® designation in 2004. The CFA charter is the only credential for investment analysis and management recognized worldwide. Recipients of the CFA charter have successfully completed a graduate-level educational curriculum, and have passed a series of three sequential annual examinations. Pass rates average about 50 percent at each examination level. In 2005, he also successfully completed financial planning coursework and passed the qualifying examination for the CFP® credential.

### Company Profile

ROLLINS CAPITAL MANAGEMENT is a fee-only financial advisory firm serving individuals. Using a consistent, patient investment strategy, our focus is long-term, high-quality, personalized investments. Clients have their own individualized accounts. ROLLINS CAPITAL MANAGEMENT handles all the daily investment decisions.

### Presentation Disclosures

1. Portfolio composite returns are actual total annual returns, including stock price appreciation, dividends, corporate spin-offs and divestitures, and other occasional cash and non-cash distributions. Individual results may vary from the composite due to variations in portfolio size, and timing of deposits/ and/or withdrawals.
2. Portfolio composite returns represent an asset-weighted combination of fee-paying client accounts under management during the period specified, reported net of all withheld fees.
3. Annual portfolio composite returns and benchmark annual returns use a time-weighted calculation over the period specified.
4. Annualized portfolio composite returns and benchmark returns are calculated as the geometric mean of annual returns.
5. Portfolio and benchmark risk measures calculated using methodology provided by RiskGrades®.
6. Detailed disclosures available on request.

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