



## June Market Commentary

On the back of a strong April, May made it two positive months in a row for the world's markets. The gains were small, but gains nonetheless. The S&P 500 was up 1.30% and the MSCI world index was up 1.11%. Over the past two months, our main concern was the ongoing increase in commodity prices. This remains our primary concern and has prompted us to take a more conservative stance.

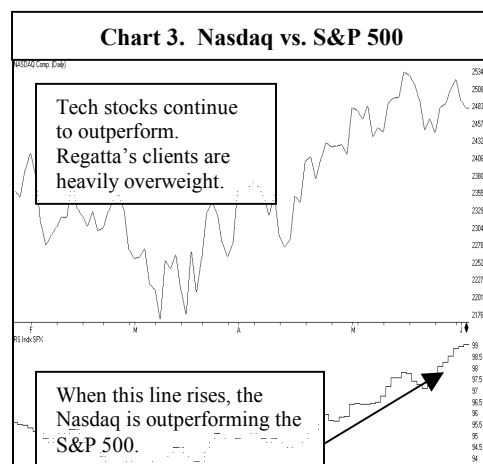
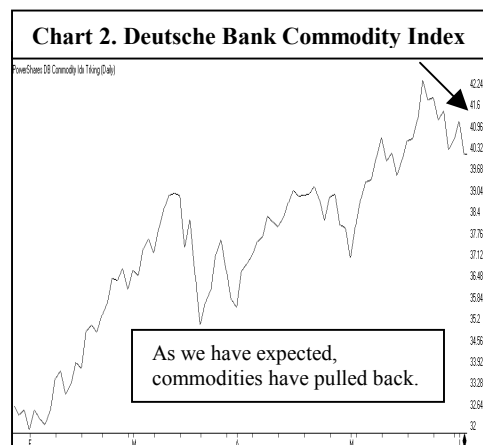
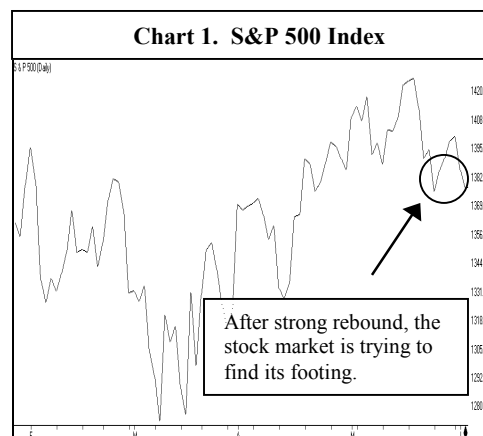
Regatta believes the oil crunch is still the biggest threat to the world economy and the effects are beginning to show. We have been watching for a correction and have seen a pullback over the past couple of weeks. It is still too early to tell if this weakness will persist or if it is simply a short-term correction. We believe we are probably close to the choking point where further escalation in oil prices could create serious pressures on the world economy. Needless to say, for equities to continue to rally there must be sustained weakness in oil prices.

Our sense is that this weakness will continue or, at least, any rise should be contained. The latest pullback was based mainly on demand concerns. If prices continue to rise, this should cause a further slowdown in the economy, hence further weakening demand. In addition, there is discussion that many foreign countries will begin to reduce and/or remove fuel subsidies, resulting in a reduction of demand for oil.

This said, we are monitoring variables that could undermine our bearish case for crude. We are heading into summer, a heightened travel season. Summer also marks the beginning of hurricane season and we have already seen one tropical storm in the Caribbean. If the US refineries, and offshore rigs, are threatened by numerous hurricanes this season, this could precipitate another leg up for crude.

The continued uncertainty of commodity and oil prices caused the recent market decline. Several of our models and timing systems forecast this weakness and, consequently, we reduced our exposure by hedging our portfolios. However, at this juncture, we believe that this short term weakness will give way to an intermediate term rally.

Last month, we were overweight the US markets, and this hasn't changed. We still see value in the US markets and believe they will continue to lead the markets forward. Large growth companies, and companies and industries with a global presence, are still in favor. Technology in general remains our preferred industry. Specifically, we continue to hold semiconductors and recently initiated positions in biotech-two areas which we feel will continue to outperform.





Emerging Asian equities, which have been extremely resilient through the market turbulence of this year, now appear to be feeling the effects of the oil surge. Asia is very dependent on oil and, thus, the rising prices are of particular concern for Asian markets. In addition, Asia is experiencing deteriorating liquidity conditions based on food price inflation, rising currencies and rising interest rates. Moreover, profit growth has slowed leading to less attractive valuations. For these reasons we have reduced our Asia ex-Japan allocations in the portfolios until conditions improve.

We are strongly considering Latin America as an investment for the resulting assets. This region has seen heightened earnings, boosting valuations. Latin America is a resource rich region enjoying the current soaring resource prices, which should help bolster share prices in the region. We are monitoring this market for an entry point.

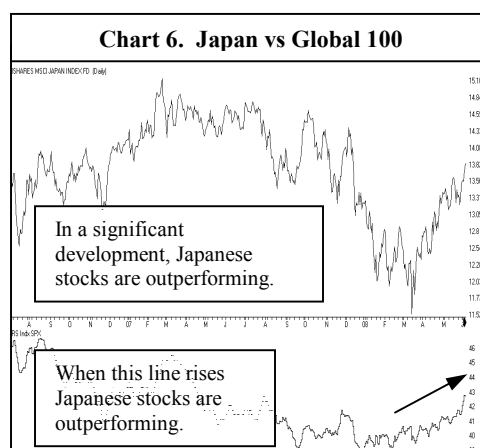
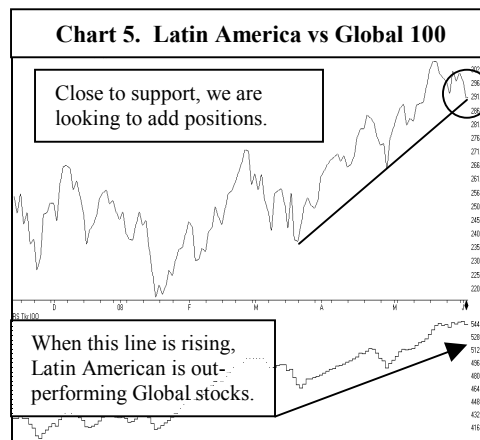
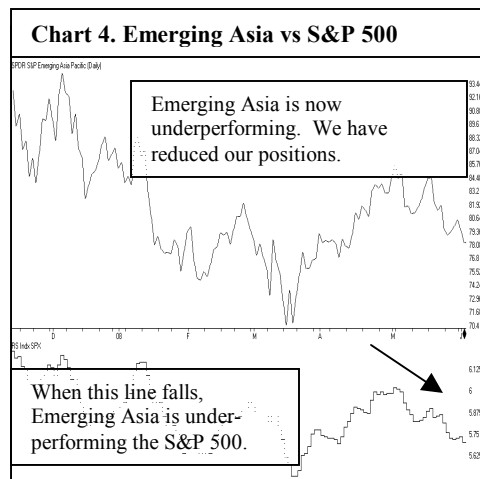
Japan is another area we are looking at as a possible candidate for out-performance. Data coming out of Japan over the past month has been better than expected and the Japanese markets are attractively valued. The markets forward P/E is low and dividend yields are higher than Japanese Government 10-year bonds. History has shown, when the dividend yields have exceeded bond yields, investors have been drawn to stocks leading to equity price appreciation. We believe this should persist and we continue to monitor conditions to add to our Japanese holdings.

In conclusion, we believe we could see more short-term weakness in the weeks ahead. However, we have hedged our aggressive trading portfolios and are holding our long positions that are outperforming the market. We currently do not believe the rally off the March lows is over. In the intermediate-term we believe the market rise will eventually re-assert itself. We continue to monitor the markets, and your portfolios, daily to take advantage of any positive developments.

We sincerely thank you for your continued patronage and support!

The Regatta Research Team

P.S. To add a friend or family member to our monthly market update, email us at [info@regattaresearch.com](mailto:info@regattaresearch.com).



**Disclosure**

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