



Commentary

High Grading

We are still in the bull market which started in March of 2009 but in the midst of another minor correction. Investors often ask me if WAM sells during a correction and repurchases at the bottom. The simple answer is no. We are not that good at market timing. We do not believe we can sell, repurchase, and be better off than just riding out the correction. However, we do use corrections to 'high grade' the portfolios.

High grading is a mining term for mining the highest grades in an ore deposit. The grades across an ore body are not equal. If you want to earn the highest profit per ton, you would only mine the highest grades in the deposit.

High grading the portfolio is putting only the best ranking stocks in the portfolio. There are times we do not own these names because they are too expensive or are over-extended on the charts. During a correction many of these names have significant pull backs to the 50-or 200-day moving averages presenting attractive entry points.

Nobody likes to sell good names that have declined -10% to -20% during a correction for no specific reason. However, it is much easier to take these losses when better screening names are down the same amount. Corrections allow you to take losses on the lesser names and rotate into better screening names.

During this latest correction, the following high grading was completed in both the Enhanced Income and Growth portfolios. First, going into the correction we had a significant long position in gold stocks. We purchased gold stocks on March 1st, when gold broke through a 5-month quadruple-top formation that started on November 2nd, 2010. Interestingly, while gold was breaking out to an all-time high, gold stocks were at lows for the year.

Thus, it seemed like a good opportunity for highly-ranked gold stocks to appreciate.

However, when the market correction started on April 15th, gold stocks began a significant correction while the metals started a minor correction. This was not a good sign as gold stocks were already too cheap relative to the metal. However, it was obvious a correction was underway in the precious metal sector, and our weighting was too high. We immediately sold our positions in: ABX, GG, ELD, YRI, AEM, and SLW.

While precious metal stocks were correcting, momentum stocks in other sectors were also correcting. Thus, we could swap our gold stocks and purchase other momentum stocks that corrected significantly. These highly-ranked stocks had fallen to excellent entry points at the 50-or 200-day moving averages. The names we purchased were in the USA and include: COF, BEXP, AAPL, DOW, CAT, BIDU, WOR, ACO, BHI, RES and JCP.

The result of this recent high grading of the portfolios was to create more diversity by sector. Thus, corrections can be used in other ways to improve the portfolio than just trying to time the market.

- Derek Webb

Disclaimer Analysis was compiled using various sources of data. Fund distributions, reinvestment price and MERs were from globefund.com dated December 31, 2010. Net asset values, dividend income, interest income and other income for the funds used for comparison came from their respective interim and annual financial statements. Data used to analyze Webb Enhanced Income Fund came from interim financial statement and trial balance of the underlying portfolio dated December 31, 2010. Income Yield is the total income received over the average net asset value. Where income data was collected from interim financial statement the income yield was annualized. Distribution Yield is the average distributions over reinvestment price for 12 months prior to December 31, 2010. Income Deficit or Accretion is the Income Yield minus MER minus Distribution Yield.