PARTNERVEST
ADVISORY SERVICES

Memo to Advisors: June 1, 2010

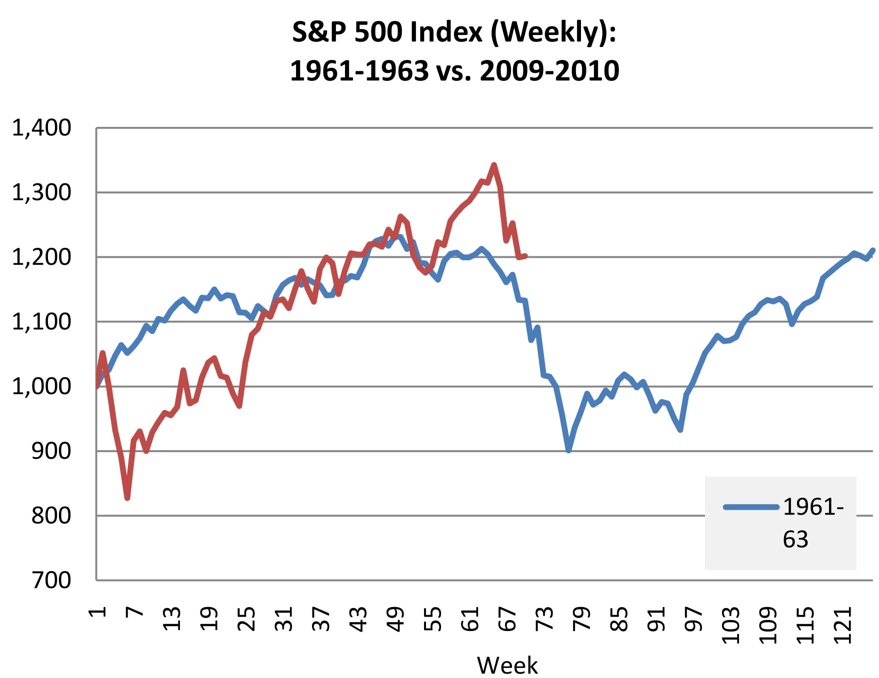
It seems the old Wall Street adage "Sell in May and go away," proved particularly prescient this year. May, 2010 was the worst on record since 1940, with the S&P 500 down 8.2% for the month. Foreign markets fared worse, with the EAFE index down 11.50% and Emerging Markets off 8.80%.

Volatility, as measured by the CBOE's VIX index, remained high as well, averaging 33 for the month, as compared to its longer-term average of around 20.

During times like these, I feel putting matters in perspective is particularly important. There is one event in particular from May that stand out. First, the "flash crash" that occurred on May 6, in which the Dow Industrials dropped 1,000 points in under 20 minutes was not the first time such a temporary freezing of the normal market mechanism has occurred.

I found it interesting that an event similar to the intraday air pocket that occurred on May 6^{th} has happened in the past. On May 28, 1962, the Dow Jones Industrial average fell 5.7% on heavy volume. Just like today, the market had advanced strongly the previous year. Stocks rose 27% in 1961, not much different than the 26.5% return in 2009. The situation in 1962 mirrored this years in many ways: the drop occurred later in the day, it was triggered by trading in a single stock (IBM back then, Proctor & Gamble today), and market makers stopped trading. In 1962 it was the specialists on the NYSE; in 2010 it was the high-frequency traders.

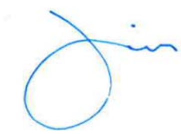
The aftermath of the 1962 "mini crash" was an SEC investigation and general public mistrust regarding the stock market. Interestingly, although it took 2 years for mutual fund sales to regain their pre-1962 levels, the indices fared better. As the chart below illustrates, although it took several months for the S&P 500 to resume its upward trajectory, prices bottomed pretty close to the levels reached on May 28.



While the magnitude of the current pullback isn't nearly as severe as that of May, 1962, I believe the psychology behind the two is similar. Markets hate uncertainty, and while a sell-off may be unpleasant in the near-term, further out events such as this May's one-day dip can prove useful in exposing any potential short-circuits in the system, and typically result in adjustments and refinements designed to prevent the situation from worsening.

Please feel free to contact the Partnervest home office with any questions or comments, or if there is a specific issue you'd like me to address.

Sincerely,



James Herrell, CFA

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