

July 1, 2009**Much has happened since our last update in April...**

After bottoming out in early March, the market abruptly reversed course gaining a full head of steam going into the second quarter. The S&P 500 ultimately gained 15.2% the second quarter.

Standard & Poor's Outlook estimated that the economy would begin to recover later this year, although at a more sluggish pace than originally thought. While the rate of economic decline has slowed over the last few months we're not out of the woods yet. Furthering that cautious sentiment, consumer confidence came in lower than anticipated this week. For the good news - as a leading indicator the market looks forward six to nine months. With that in mind, we could very well be through the trough and on the way back up to daylight.

While the market has risen dramatically from the March lows, the quality of that increase bears some scrutiny. Right now, the market borders on chaotic behavior, with price fluctuations up to plus or minus 5% any given day being the new norm.

Throughout this market increase, we've seen some very unusual and unexpected action, not at all the typical response to a new bullish signal. **The difference is found in the actions of leading and laggard stocks.** Leading stocks, as the name indicates, lead the market in fundamentals, quality and potential price appreciation. Laggards are the opposite: low quality, sometimes questionable stocks with poor appreciation prospects.

As typical with a new bullish signal, most leading stocks will usually take off , building on and confirming the overall market uptrend.

The market has been anything but typical so far during 2009...

Laggard stocks have ruled the market the last few months, fueling the rapid upward movement of all major indices. Leading stocks have increased albeit at a much more tepid rate than their laggard cousins.

Leading stocks comprise the Investors Business Daily (IBD) Top 100 Stocks, S&P 5 Stars and Value Line's Most Timely. Representative of the laggard group are Value Lines Least Timely stocks.

Leading stocks on average returned **8.03%** for the second quarter, performing well below the market. Lagging stocks in contrast, posted a staggering gain of **92.5%** for the quarter, more than sextupling the S&P 500 return.

We've just endured a very unusual period where weak and laggard stocks turned out to be big winners, leaving strong quality stocks far behind. This likely will not continue for long though, lagging stocks are now in fact exhibiting weakness.

Leading stocks are not to be discounted too readily, despite the recent performance anomaly. While poorer quality stocks have had a good run lately, their values have advanced to unsustainable levels. Leading stocks will eventually resume their leadership positions as the market establishes itself again.

As always, please feel free to call if you would like to discuss this unusual time in the market...

Back to work for now...

- Richard Hebert

*"There are a hundred roads to Rome. The important thing is to get there, not to use the same road."
....Herb Kelleher, Southwest Airlines co-founder.*

INSTITECH - **Market Status as of June 30, 2009:**

Stocks covered: 3,992

The ITS 4000 Stock Index is 845.72 **above** its 30 week weighted moving average of 745.12

74.5 % of all stocks covered are in short term Bullish trends.

Market is Bullish

Current Bullish signal occurred April 8, 2009

HÉBERT ADVISORY SERVICES, INC. Equity Portfolio Management *Institech*® Technical Research

1501 Washington Avenue, Golden, Colorado 80401 (303) 986-9110 (800) 642-0269 www.hebertadvisory.com

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