SELECTOR® Money Management
2014 First Quarter Review

Equity Markets Were Positive, But Gains Were Minimal

The First Quarter of 2014 was earmarked by a moderate correction followed by a recovery to record highs. But it wasn't easy and it wasn't without drama. After opening the year with two relatively quiet weeks, equity markets dropped into a correction that was sharp and deep, taking many major market indexes right down to their 150-day moving averages in only two weeks. Just as abruptly, those same major market indexes paused, reversed, and in the next two to three weeks effected a full recovery. If you weren't paying close attention, you would have missed it entirely. During the final six weeks of the quarter, equity markets pushed higher into record territory, but the advances were limited to 1-2%. From a technical perspective, long-term and intermediate-term trends remain positive.

Bond Markets Outperformed Equities

Bonds were the beneficiary of the equity markets' drama and volatility in the first quarter. They advanced nicely thoughout the month of January and held onto those gains even as equities recovered in February and March. Interest rates continue to rest near record lows as the new Federal Reserve chief maintains the status quo, contending that rates should continue to remain low well into 2015. Long-term Treasuries, which suffered greatly in 2013, showed the strongest gains, with municipals and investment grade corporates not far behind. High yield bonds exhibited just a fraction of the equity markets' volatility and closed out the first quarter near all-time highs.

International Equities Were On The Same Rollercoaster As Domestic Equities

Developed international equities behaved exactly like domestic equities in January and February. They started flat, corrected sharply, recovered rapidly, then pushed to marginal new highs. In early March volatility picked up in reaction to the Russian-Ukraine tensions, but once again they pushed back higher to finish the quarter very close to all-time highs. This was not the case for Russian equities, however, which were the poorest performers of the first quarter, down over -13%. Emerging markets declined sharply in January, continuing their slide from October of 2013. Even their February recovery was more tepid. The last week in March there was a surge of interest in the emerging markets that carried them back above 150-day and even 50 day moving averages, giving them espectable numbers for the quarter.

We Adopted a More Conservative Stance In The First Quarter

After equity markets rebounded in February we elected to reduce equity exposure and add more bonds to managed accounts. Additionally, we also added exposure to real estate securities, which like bonds moved higher during the sharp correction in January. The goal of these moves was to dampen volatility, while maintaining positions in securities that were benefitting from a 'flight to safety.' There has been a marked rotation in the first quarter away from more aggressive equity sectors and towards more conservative equity and bond sectors. As trend-followers, we attentively responded to this rotation and continue to monitor whether this activity is shorter-term in nature, as with another quick correction, or an indication of a more pronounced turn in the financial markets. At this juncture, the bulk of the evidence points towards an equity market that behaves much the same as we experienced the past eighteen months. That would continue to be a most desirable and profitable scenario.

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