SELECTOR® Money Management
2014 Third Quarter Review

Equity Markets Sent A Much Different Message In The Third Quarter

Just as the Second Quarter of 2014 was relatively simple, the Third Quarter was rather puzzling. July started out just fine, as major market indexes continued their climb to record highs. However, the last week of July equity markets declined across the board, leaving July with negative returns and resetting YTD returns all the way back to the beginning of the year. The July correction was smaller then the January correction, and thanks to the equity markets' steady advances February through June, the long-term uptrend was intact. It took just three weeks to recover from this correction, like the earlier one. Equity markets stabilized during August, then broke up to new highs the third week of September. Then, surprisingly, equity markets once again became vulnerable the last few trading days of September. Initially, this late softness in equities could point fingers at end-of-quarter rebalancing. But regardless of the culprit(s) technical damage was inflicted. October will hold important clues for year-end results.

Bond Markets Transitioned From An Uptrend To A Trading Range

Thanks largely to a very strong U.S. Dollar, domestic bond markets continued to mark gains during the Third Quarter. Conversely, international bond markets suffered across the board. The strongest showings in the U.S. bond market were in U.S. Treasuries and municipals. The weakest performances were seen with high yield bonds, reflecting the equity market's higher volatility, and with TIP's. Year-to-date, the leadership remains the same, with the intermediate and long-term U.S. Treasury Bond Indexes at the top. Utility bond, municipal bond and high quality corporate bond indexes fill out the top of the leader board. A significant transition for bond markets during the third quarter was their transition from long-term uptrends to trading ranges. Almost all of the bond indexes that we follow are now firmly established in trading ranges. This stability may prove useful should equity markets become less stable.

International Equities Experienced A Dismal Third Quarter

The worst results were seen in Europe, with most of the European market indexes that we follow now in negative territory year-to-date. European equity had been working to regain upward momentum during the Second Quarter, but were especially vulnerable during the late July and September corrections. Their long-term trends can now be categorized as trading range, at best, with prices at the bottom of the range. Emerging markets equities, on the other hand, weathered the July correction quite well, even moving to multi-year highs the first week of September. From that point, however, prices have also been declining rather sharply. While still in positive territory for the year, they have surrendered much of their gains.

Once Again, There Is Caution In The Air

It can be surprising how quickly the momentum can change in modern markets. Two weeks ago we had green lights for domestic equities with many indexes hitting all time highs. International equities were troublesome but our exposure was in emerging markets, which were in good technical shape. We have already had two corrections this year, followed by higher prices. What has changed? From a global perspective, U.S. equity markets are now on their own. And from a breadth perspective, U.S. equity markets are narrowing. Small caps are once again in negative territory for the year. Mid caps are faltering. Large caps can lead the charge, but they need to rally the troops for meaningful progress.

Edward D. Foy
Manager, SELECTOR® Money Management

Foy Financial Services, Inc.
12501 Holdrege Street
Lincoln, Nebraska 68527

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