# *SELECTOR® Money Management*
# *2014 Year End Review*

**The Fourth Quarter Was Volatile For Equities With Two Corrections In Three Months**

In October equity markets continued to be impacted by the sharpest correction of 2014. At the bottom of the correction the S&P 500 Index was down by -10% with all of the progress seen YTD gone. Small Cap and Mid Cap indexes had entered negative territory and international equities were down by -15%. Equity markets staged a remarkable recovery rally from those lows, only to experience another -5% correction in December. That was the fifth correction of 2014. In addition to the increased volatility as the year progressed, equity markets narrowed in their participation. International equity markets dropped out of the formation during the July correction. By the end of the fourth quarter, positive domestic sector participation had circled around health care, utilities and real estate sectors, all inherently defensive. Yet the long-term trends remain positive and our domestic Bull Market is still officially in place.

**Domestic Bond Markets Were Beneficiaries Of Equity Market Volatility**

Domestic (U.S.) bond markets transitioned from an uptrend to a trading range mid-year. That trading range was reinforced by the increased equity market volatility during the 2nd half of 2014. The primary beneficiaries continued to be high quality bonds, including both U.S. Government securities and investment grade bonds. Municipal bonds also retained a positive presence. High yield bonds, on the other hand, gradually succumbed to their close connection with equity markets, first falling from uptrends to trading ranges, then from trading ranges to downtrends in the fourth quarter. The U.S. Dollar's strength was another contributor to the strong domestic bond markets. International bonds continued to suffer at the hand of the strong U.S. Dollar, as well as the ongoing demise of the European equity markets. Even predominantly U.S. Dollar-denominated emerging markets bond indices broke down from their trading ranges in December.

**International Equities' Trouble Began In July And Worsened in October**

The broad international MSCI EAFE Index fell by -15% from July to October. The strong domestic equity rally in late October barely pulled the EAFE to a resistance level and an intermediate-term downtrend before it once again declined. Europe's economic difficulties are well-documented and pervasive. The primary bright spot on the international equity horizon is China, which gained nicely in 2014. However, the prevailing price trends for international equity sectors are negative and it remains to be seen where the market lows for these declines will be marked. Bottom line, international equity exposure was the curse, not the cure, in 2014. Even the resurgent emerging markets had surrendered all of their yearly gains by the end of the fourth quarter.

**Equity Markets Have Transitioned From Broad To Focused With A Large Dash Of Volatility**

It is quite possible we may transition into an equity market that is not for the faint of heart but for the full of heart. The upside of such a market is returns that are far above normal and rarely accessible. The downside of such a market is returns that are barely tolerable and hardly sufferable. We want to give you exposure to the best markets available, consistent with the amount of risk you feel is reasonable. Always remember that investing is a long-term commitment. It generally rewards patience, especially when you have confidence in your partners in the process.

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