SELECTOR
Real-Time Money Management

# Monthly Commentary

## April 15, 2014

*"Good investors gather information, put that information into current and historical context, then make sound decisions."*

**After a rambunctious correction and recovery in January/ February, equity markets have settled into a tight trading range.** March was mostly docile, but thus far April has turned into the tiger with multiple 100 point swings on the DJIA. This type of activity typically precedes a break to either the upside or the downside. A prudent investor, and a good market technician, will default to the longer-term trends for additional clues of the coming attraction. The long-term trend remains positive. The intermediate-term trend is looking more like a trading range, but the moving averages are still stacked correctly and pointed higher, which are also positives. So as a prudent investor and a market technician I continue to maintain a positive outlook, although I am not a fan of the high volatility. This is not unlike a frequent flyer who has grown accustomed to long flights and multiple take-offs and landings, but still loathes turbulence.

**A quick check of the scoreboard shows that institutional investors have become markedly more defensive in 2014.** The two top-performing sectors for the year are utilities and real estate. The Dow Jones U.S. Utilities Index is up +12.03% YTD and the Dow Jones U.S. Real Estate Index is up +9.98% YTD. These are definitely not the sports cars or coupes of the institutional community, but rather the SUV's and F-150's. When you see them at the top of the leader board it tells you how rough the road and the weather has been recently. Interestingly, the next familiar face on the performance scoreboard is a Bond Index. The Barclays U.S. 20+ Year Treasury Bond Index is up +9.88% YTD. On first blush, this may indicate a flight to safety, but every experienced investor understands that the long-term Treasury is anything but safe; rather it is the most volatile bond sector. The appearance of the long bond this high and this soon on the score board is more of an indicator that the real fireworks are yet to be lit. Positively or negatively.

**From a seasonal perspective, this is the time of the year when institutional investors have normally completed the harvest of their winter crop and planted their fields for the fall harvest.** But like the Midwest, which is experiencing a late Spring, institutional investors also appear to be slow in getting into the fields. It looks like we won't have a clear picture of their intentions for another few weeks. As we have stated in past Monthly Commentaries, we see nothing fundamentally, economically, or politically dramatic on the horizon that would change the basic course that financial markets have been plodding for the past eighteen months, so we expect more of the same. That is a strong positive.

**A quick review of market sector performance reflects the strong performance of the typically defensive utilities and real estate sectors.** We then see relative strength in the energy sector before the numbers drop off sharply to last year's sector leaders of pharmaceuticals and health care. The Dow Jones U.S. Select Pharmaceuticals Index has had a rough start to the year and, although it is still up +3.06% YTD, it has fallen -6.35% in the last 30 days. The Dow Jones U.S. Health Care Index has dropped -3.40% in the last 30 days but remains positive for the year, up +2.16%. Basic materials and technology sectors are also still in positive territory for the year as well.

**Major market indexes show the wear and tear of the moderate correction and higher volatility.** The S&P 500 Index is still in positive territory for the year, up +0.29%. The S&P MidCap 400 Index is down -0.31% YTD. The S&P Small Cap 600 Index is down -2.31% YTD. Developed international equity markets are faring somewhat better, with the S&P Europe 350 Index up +0.79%. Emerging markets made a surprising move higher the past couple of weeks, although they remain firmly contained in a trading range. The MSCI Emerging Markets Index is up +0.25% YTD.

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**Bond markets, on the other hand, are positive across the board.** As previously mentioned, the long U.S. Treasury bond is leading the pack, but there is pretty strong support close behind. The Merrill Lynch U.S. Corporate 10+ Year Index is up +8.12%, The Barclays U.S. Utility Bond Index is up +5.21%, and the S&P National Municipal Bond Index is up +4.37%. International bond markets have also been strong thus far in 2014. High yield bonds and TIPs bonds have produced positive results for the year with the Barclays U.S. TIPs index up +2.91% and the Markit iBoxx USD Liquid High Yield Index up +2.92%. It is not surprising to see this strength in the bond indexes given their relatively quiet performance in 2013, as equity markets cool down following their very positive and surprising showing last year.

**Edward D. Foy**
**Manager, SELECTOR® Money Management**
**www.foyfinancial.com, Ed@foyfinancial.com**
**(800) 456-4380**

Sources: Bloomberg, Marketwatch.com, StockCharts.com.