SELECTOR
Real-Time Money Management

Monthly Commentary

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

All of the major domestic equity indexes have now pushed up to all-time highs. The funny thing is that it doesn't really feel that great, at least so far. It occurred without a lot of fanfare. In fact, the Dow Jones Industrial Average has only had one 100+ point day in the last five weeks. This can be interpreted two ways. One could look at the recent price moves and be reminded of how marathon runners look as they cross the finish line. Some sprint, but many stumble, having hit the wall several miles back. This view does not hold a great deal of promise for additional gains in domestic equities, at least in the near future.

A second viewpoint is more optimistic. It could be that domestic equities have just made a successful, unopposed amphibious landing and are now organizing for a push inland. This is not to imply that the rest of the campaign will be a walk in the park, just that a beachhead has quietly been established. Casualties were light, primarily contained in those sectors which are defensive. This includes the utilities sector which broke out to new highs in early June, peaking in early July. Investors in utilities are still enjoying a fine year in spite of their -6% decline in the last few weeks. The real estate sector also recently experienced a pullback after breaking to new highs in July. That sector also continues to be very profitable year-to-date. That being said, overall, most all of the S&P equity sector indexes are at or very near all-time highs.

As a result, I like the second scenario. For starters, there is no such thing as a defined finish line in financial markets. Equity markets are defined by their price action. Gains and losses are calculated over time and a race can last for years. Our current Bull Market started in March of 2009, and while it is one of the longest-lasting Bull Markets in history, it still demonstrates that it has the 'legs' to run for a considerable distance. It most certainly has not been sprinting the course. The U.S. economy has only been able to maintain a slow walk for several years, hampered by a number of factors, but it is still making progress. The extended trading range that we have seen in domestic equities for the past 18 months can now serve as a foundation, and the recent breakout represents a new beachhead. The Federal Reserve recently upgraded their outlook for the U.S. economy, after multiple quarters of flat to meager growth. This can only be good news for equity markets.

The U.S. has the strongest economy, the strongest currency, the strongest long-term stock market, and the strongest outlook of any country in the world. It also has a number of real problems and situations. Every country does. However, when you compare the magnitude of the U.S.'s problems to the other countries' problems, issue by issue, it quickly becomes obvious that that the U.S. is better positioned. This most certainly is the case with our financial markets. I am not just waving the flag here, I am weighing opportunities. The equity market trends are positive. The market breadth has expanded. Bond market trends remain positive. Because of the nature of our recent breakout to new highs, it may be expected that the tone has been set, and that further advances may also be muted, but persistent. The volatility index is very low, additional evidence that institutional investors are staying cool, calm and collected.

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Another investment consideration is the upcoming elections. From an historical perspective, regardless of whether the challenging or the incumbent party wins the White House, the last seven months of presidential election years have been positive 14 of the last 16 elections since 1950. The only two losers were in 2000, when the results of the election were delayed for 36 days, and in 2008, during the banking crisis. So, that is a pretty positive precedent regardless of who becomes president. (Sorry, I just had to do that.)

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Sources: Bloomberg, Marketwatch.com, StockCharts.com