SELECTOR

Real-Time Money Management

Monthly Commentary

February 18, 2014

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

It's been a very busy four weeks for equity markets in the four weeks since the January Monthly Commentary! Every single equity index that we track fell into a moderate correction from mid-January to the first trading day of February. Most of the declines occurred in just three trading days, but it caused a significant amount of technical restructuring. The short-term/three month trendlines and 50-day moving averages melted like butter the first week of the correction. No great concern after the very strong fourth quarter of 2013. But by the first trading day of February we saw the S&P 500 drop all the way down to the more significant 150-day moving average, taking out intermediate support along the way. At that point the S&P 500 had declined 133 points, or -7.5%, in just 2 weeks. All of a sudden we were on the edge of the canyon! And yet, at today's close the S&P 500 closed at 1840.76, just -0.4% lower on the year. Phew!

Fortunately, at that juncture institutional investors decided that enough was enough and the S&P 500, as well as every other major equity market index, held their ground there for two days before trending higher. On a short-term basis it was a dramatic, absolutely perfectly-timed reversal. It's longer-term significance remains to be seen. Other equity indexes had sloppier experiences. The S&P 400 Mid Cap Index fell -7.1% in that period but dropped below its 150-day moving average the last day of the correction. The Russell 2000 Small Cap Index declined by -8.6%, and also pierced its 150-day moving average on the final day. It was a touch unnerving, even for professionals, as the next support levels for these last two indexes were another 7-8% lower. And yet, again, at today's close the S&P 400 Mid Cap Index was up +1.05% YTD, while the Russell 2000 Small Cap Index was almost dead even for the year.

International equities markets did not fare any better than our domestic markets. The S&P Europe 350 Index declined -7.1% during this same exact period, while the MSCI Emerging Markets Index fell -11.5%. Yet, like their American cousins, they both bounced back in perfect rhythm and time. The difference was that developed international equities, as represented by the S&P Europe 350 Index, held their longer-term technical composure, while emerging markets surrendered all short-term and intermediate-term technical support during their decline. The S&P Europe 350 Index closed today up +1.8% YTD, while the MSCI Emerging Markets Index closed down -4.19% YTD.

Meanwhile, bond markets took full advantage of the turmoil in equities markets, moving markedly higher. The Barclays U.S. 20+ Year Treasury Bond Index is now up +4.82%, the iBoxx USD Liquid Investment Grade Index is up +2.72%, the S&P National Municipal Bond Index is up +2.45%, and the Barclays U.S. Aggregate Bond Index is up +1.45%, all year-to-date numbers. Real estate securities, which behaved poorly in 2013, like bonds, are now benefiting from that association in 2014 and are performing admirably. The Dow Jones U.S. Real Estate Index is up +6.79% YTD. Interestingly, real estate securities are of international interest as well, with seven international real estate indexes also posting positive results YTD in the +6% to +8% range.

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From a sector perspective, in addition to real estate, the biotechnology, pharmaceutical, and health care sectors continue to perform very well. Just one step lower, the financials, technology, basic materials and utilities sectors are also in positive territory for the year. On the commodities front, gold and silver had reactionary bounces during the technical correction in equities and continued to move higher the past couple of weeks as equities rebounded. This is the first technical breach of a very long-term downtrend in precious metals that included the worst performances of 2013. The London Gold PM Fix is up +10.21% YTD, with the London Silver Fox up +9.59% YTD. In contrast, the energy sector, both domestically and internationally, are among the worst performers thus far in 2014. The Dow Jones U.S. Oil & Gas Index is now down -2.61% YTD, with the S&P Global 1200 Energy Sector Index down -2.26%.

As you can see, we are getting a lot of mixed signals in the first six weeks of 2014. Accordingly, at SELECTOR® Money Management we have elected to adopt a slightly more conservative posture, incorporating a larger degree of bonds and real estate than previously held as we continue to decipher the code for the year 2014. It is still very early in the year and the next few weeks should continue to divulge more clues as to the institutional headings and intentions. Stay tuned.

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