SELECTOR
Real-Time Money Management

Monthly Commentary

February 21, 2017

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

In last month's Commentary I mentioned that domestic equities appeared to be waiting on their rising moving averages and trendlines. When those important technical indicators caught up to the prices, we would see if they could budge prices higher, and I am happy to report that they have done just that. In late January and early February we saw a fresh breakout from the tight two percent trading range that was holding equity indexes in check during December and most of January. That breakout level hasn't been tested as of yet, but there is ample room for the mild correction that could provide a successful test.

What was a house party has now become a block party. Previously, U.S. equities had been the primary source of celebration in the global neighborhood. But now European equities are also in the process of breaking out of a trading range that had been containing prices for all of 2016. Granted, they are far from their all-time highs and trailing quite a ways behind their American cousins, but the breakout is quite clear and the technical indicators are giving them some room to run as well. On a timeline, European equity markets are about three months behind the U.S. equity markets. This breakout is also very fresh, and it may require several weeks before we learn if it is successfully tested. Emerging markets, including the important Latin markets, are joining Europe in these mid-February breakouts. The positive implications of this added breadth cannot be ignored.

Bond markets continue to show improvement after successful tests in January and February. These tests were different from the equity market tests. While equity markets were testing breakout levels from trading ranges, bond markets were testing breaks from downtrends that had been driving prices and returns lower since September of 2016. So these bond market tests are not accompanied by a great deal of fanfare, in spite of being quite important. Year-to-date, the primary bond markets are now back in positive return territory, albeit with returns of less than one percent. The exception is the high yield bond market, which is +2% on the year.

Despite the fanfare in the headlines, so far in 2017 U.S. equity indexes are just hitting solid singles, not home runs. From a price perspective the primary large cap, mid cap, and small cap indexes are only up +5%, +4%, and +3%, respectively. But the story is in the breadth, because every batter in the starting lineup is hitting solid singles. This holds true from the industrial sector perspective as well. And as we noted last month, even those defensive sectors that are on the bench, such as real estate and utilities, are rotating nicely and appear ready to contribute should they be called upon.

"What was a house party has now become a block party."

From a counterpoint perspective, it should be noted that historically we encounter three corrections a year, two mild (-5%) and one moderate (-10%) even in the course of a Bull Market. We opened 2016 with a moderate correction, had a mild correction the end of June, and another mild correction in the weeks just prior to the election. Domestic equity markets are now rather extended on the upside. A correction that would test their February breakout levels would not be surprising, and could prove beneficial as institutional investors could then exhale and rebalance.

Although this is a very mature Bull Market, expectations remain high. Even with the recent breakout, market volatility has been quite low. It has been a long time since this old Bull has really kicked up his heels. He might just surprise us!

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

©2017 Edward D. Foy

Sources: Bloomberg, Marketwatch.com, StockCharts.com