SELECTOR
Real-Time Money Management

Monthly Commentary

July 22, 2014

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

When evaluating financial markets we generally use two primary sensory sources, our eyes and our ears. It is very difficult if not impossible to feel, smell, and taste market data, so we look and listen. Unfortunately, there is an inherent problem in the listening process, as we must listen to someone else's interpretation. There is no direct digital script. But there are huge marketing, advertising and persuasive vulnerabilities/ opportunities associated with listening, and ultimately believing, what we are being told. There are many remarkable story tellers, especially in the financial services industry. I know, because once upon a time, when I was a stockbroker, I was one of them. You essentially sold the company store, the company line, and were compensated according to how well you sold the story.

The financial services industry has evolved greatly since the 1980's, and today's registered investment advisors bear little resemblance to the traditional stockbroker. The hallmark of the registered investment advisor is their responsibility, as a fiduciary, to do what is in their clients' best interests, even if that does not align with their own interests. That fiduciary responsibility is a cornerstone of all of our processes. So how does this tie back in to how we evaluate financial markets? Investment advisors, like our clients, primarily use our eyes and our ears to assess the current situation. We use our training, background, and experience to assess our clients' situations. Then we melt those two impressions together as we seek to help our clients in achieving their financial objectives.

Investment advisors must have a great deal of confidence in that information which they are being told about current markets. Their levels of discernment can dictate their actions, and in turn impact their clients' experience. Fortunately, thanks to the incredible levels of technical analysis that is now readily available to advisors, we can also learn to trust our eyes about what we see in current markets. Advances in technology, computers, and technical analysis have brought to bear a rich tapestry of analysis that allows experienced advisors vast depths of information that can prove to be invaluable when evaluating current market conditions. At Foy Financial Services, Inc., and SELECTOR® Money Management we take full advantage of these technological and technical analysis tools, primarily trusting what we see, rather than what is being presented through the numerous promotional, advertisement-driven media sources.

So what are we seeing now? Equity markets continue to demonstrate impressive strength and resolve, even in the face of bad news and variable earnings reports. The markets' reaction to the downing of Malaysian Airlines Flight 17 illustrates how responsive and reactive the markets are, while still returning to the predominant trend. On July 17th, the day that the news was released, the Dow Jones Industrial Average declined -156.64 points. The following day it rebounded +123.19 points. Why is that significant? If equity markets would have totally ignored such horrifying news it would have been disconcerting to me, indicating that the 'non-human' forces were completely in charge, as in algo-trading. Algo-trading can be extremely volatile, which is undesirable. If equity markets would have fallen sharply then continued to tumble it would have been disconcerting to me, indicating that markets were flighty and easily frightened beyond the initial alarm. The fact that equity markets were responsive to the news, but quick to recover, tells me that this market is attentive, reactive, and manageable. Most importantly, it reaffirms the primary, positive trend.

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Our technical work indicates that equity markets, as well as the bond markets, do have good legs at this juncture, meaning that they are not acting tired, distracted, or fatigued. U.S. equity markets remain strong, especially the large cap sectors. Small cap domestic equities, on the other hand, which we have had on probation, are once again demonstrating relative weakness. On the international front, emerging markets are definitely in play and we have established positions accordingly. Real estate and technology continue to lead in the industrial sectors, while home construction and utilities experienced rather sharp pullbacks in the past month. The most troubled international equity market continues to be Russia, which fell by over six percent the past month. Bond markets continued to gain ground over the last 30 days and all of the fixed income sectors that we follow are in positive territory YTD.

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

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