SELECTOR Real-Time Money Management

Monthly Commentary

June 15, 2015

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

Just in case you still thought that you were going to enjoy an action movie starring the stock market, let me remind you that you are sitting in the wrong theatre. Equity markets have not been in the 'action' mode for several months now and as the person who has to sit through all of the good, bad, and ugly movie scripts that make it to the silver screen, even the previews of coming attractions are not promising. Trading range markets are like that. You sit and wait and eat popcorn until the lights come back up. The good news is that as unexciting as the upside looks, the downside is just as uninteresting. In the bigger picture, this is a pretty good time to put new money to work, because you don't have to worry as much about accidently stepping onto the wrong express elevator. They are all just going between a couple of floors.

On the other hand, and this is actually a touch ironical, the bond markets are absorbing quite a bit of action! As we said last month, in the absence of real news, speculation and conjecture move to the front page, and nowhere has this been more evident than in the bond markets where once again the boogie man known as 'higher interest rates' has reared his ugly head. This has been the case for many months, and perhaps a couple of good years. As I said, it has been a really, really slow news environment for the financial networks so they are working hard to get us as twisted out of shape as possible. Higher short-term rates are necessary. They are not a disaster waiting to happen. Short-term interest rates have been excruciatingly low for far too long. Short-term savers and investors deserve an interest rate that equals the nominal inflation rate plus 1%. That equates to something between 2-3%, a long way from current money market rates which are just north of zero.

But back to the drama! It is widely and falsely believed that an increase in very short term interest rates will be the death knell for intermediate and long-term bonds, which in reality are priced from a very different mechanism. Nonetheless, this false perception stirs the pot from time to time, and now is one of those times. As my father used to say, 'Right, wrong, or indifferent,' people will believe what they want to believe when they want to believe. Interestingly, this euphemism tends to hold more water in the professional investment community than one would expect. The result has been, quite simply, a 'sale on bonds.' Bond market sales are nowhere as exciting or potentially profitable as stock market sales, but they can represent interesting opportunities for investors who are prepared to take advantage of the event. The other reality about bond market sales is that they don't tend to last very long, like the old Kmart blue light specials.

Our current bond market sale has crossed all of the boundaries and now includes investment grade, high yield, municipal, and government bonds. We have recently seen a bounce in prices indicating that calmer heads have reentered the scene, but the declines in prices may continue to attract assets as long as the 'summer doldrums' continue to vex both international and domestic equity markets. If short-term fixed income investors have become complacent about their low-return fare, the current decline in prices and increase in yields should motivate a good number of them towards the intermediate-term taxable and municipal bond markets. Please contact us if this strikes a chord with you.

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Looking back to domestic and international equity markets, the long-term trends remain our friends. At some juncture this will once again rouse the senses of those investors, including most institutional investors, who have been patient with our long-term Bull Market in equities. The recent resurgences of Mid Cap and Small Cap domestic equities have yet to reach any semblance of a climax. International equities, both developed and emerging, which recently recaptured the attention of investors, are now settling back from their dramatic breakouts in the first quarter. For these equity sectors we are still in the 'first quarter' of the game, with a lot of action yet to come. But for the time being, the pace has become slowed considerably. Any rallies, north or south, have been accompanied by diminutive volume, and price moves without volume are rapidly dismissed. There is absolutely nothing wrong with a long, lazy Summer. In fact, the absence of drama can prove to be comforting for investors making adjustments in their investment objectives or reassessing investment priorities.

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Sources: Bloomberg, Marketwatch.com, StockCharts.com