Monthly Commentary

March 18, 2014

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

Thus far, 2014 has not disappointed those who embrace the Adventure/Intrigue script. A sharp -7% correction in January was followed by an equally sharp +8% rebound rally in February and March that took many equity market indexes to new all-time highs. Enter stage left, Crimea, Putin, and a cast of United Nations extras with a traditionally ineffectual response, and equity markets responded with a -2.5% decline, the largest single week decline in two years. Crimea responded with overwhelming voter turnout and an overwhelming vote to rejoin Mother Russia, and equity markets surge higher, recapturing two-thirds of the previous week's decline in just two days, even as the United States imposes a tepid list of economic sanctions against Russia. Cut! Print! That's a wrap! No, wait! Stay tuned!

Thank goodness equity markets are not simple players on a world stage, being driven by the fancies and whims of those reporting their versions of the headlines. To believe that the media drives equity markets is nothing short of pure folly and ignorance of the complex nature of our financial marketplace. Financial markets are not impervious to short-term sentiment, especially when trading at high or low extremes to the prevailing trends. Financial professionals are playing a very long game, with very large amounts of money. It is a chess match of epic proportions that never ends. Just consider the vast differences in the relative agendas of the daily news mass media markets and the investment professionals who are investing for decades and lifetimes.

The media is seeking your immediate attention, and hopefully, your passionate response to their scripted reports of current events. Since people typically respond more passionately to bad news, the more shocking the better, the more extreme the better. Bad news sells. But the media needs to sell you day after day after day, and yesterday's news is old news and old news (in the day of newspapers) lines parakeet cages. Today it is deleted or sent to the junk mail file. The media markets need constant refreshing, constant commentary, constant renewal, day after day. The performance pressure to fulfill this requirement can contort any news provider, from CBS to CNN to PBS to FOX.

Fortunately, professional investors do not base their long-term investment plans on the transient news of the day. They reference far more sustainable sources of fundamental data and technical analysis, utilizing techniques and processes founded in decades of experience. The daily fluctuations of financial markets neither prove nor disprove their investment philosophy. They do, however, provide opportunities to buy or sell at better prices as intermediate and long-term strategies are implemented. The news of the day can provide energy, and occasionally even an element of surprise. But history has proven time and time again that financial markets are not puppets to the news, but rather, are opportunists that capitalize upon those vulnerable to the daily chatter.

So where do we stand thus far in 2014? In spite of all of the drama, domestic equity markets are slightly higher for the year, and just below all-time highs levels set just a few weeks ago. The S&P 500 Index is up +1.76% , the S&P MidCap 400 Index is up 3.63%, and the S&P SmallCap 600 Index is up +2.85% YTD, Their intermediate and long-term trends remain positive. International equities are more of a mixed bag. European equities are back in positive territory in spite of all the commotion with the S&P Europe 350 Index up +1.07%. Emerging markets remain under pressure, with the MSCI Emerging Markets Index down -4.73% YTD. Interestingly, Russia is the worst performing market in the world, with the MSCI Russia 25/50 Index down -19.05% YTD.

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Bond markets are in positive territory across the board, with considerably less volatility than equities. The best performer thus far is the Barclays US 20+ Year Treasury Bond Index, up +6.48%. Municipal and high quality and high yield bond indexes are up from +2% to +3% YTD. The Barclays US TIPs Index is up +0.58% YTD, and short-term bond indexes are all up marginally for the year. Bonds have proven to be valuable additions to diversified portfolios thus far as the volatility for equities has increased substantially. Real estate securities have also proven to be valuable additions to portfolios in 2014, rebounding with bond markets after languishing for most of the prior year. The Dow Jones US Real Estate Index now stands up +8.80% YTD.

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