SELECTOR
Real-Time Money Management

Monthly Commentary

March 21, 2017

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

At this writing it appears that we are beginning what would be the first correction of 2017. Last month we discussed the historical frequency of equity market corrections. Even in a Bull Market we can expect to see two mild corrections and one moderate correction. The last time we had a mild correction was just prior to the November elections, so that dates back to late October, six months ago. The good news is that markets have advanced far enough that there is ample room for pullbacks in almost all of the major sectors. That being said it is worthwhile to drill down a little ways because some equity sectors are more vulnerable.

Most of the domestic equity indexes broke out last November and December then settled into a tight, two to three percent trading range. That trading range developed into 'platform support' that developed into another run higher in February and early March. This most recent breakout and advance has not been tested yet, and that platform support may provide a base that is adequate enough to contain a mild correction. In quick review, a mild correction is defined as a decline of five percent or less. It is still very early (day 1) and impossible to accurately predict how far or how long-lasting this correction will run. In reality, markets could snap back in just a few days, which would take the correction off the table entirely. We shall see.

International equity markets broke out more recently, which presents a different set of scenarios. First, international equities could follow suit, complete a mild correction, and put in a positive test of their February/March breakout. That would be a perfect opportunity for institutional investors to rebalance portfolios and continue their shift overseas. International equities have been out of favor for almost two years and accordingly have been underweighted relative to traditional portfolio models. A second scenario could develop into a significant rotation into international equities from domestic equities. This would continue to push international equities higher without the need for an immediate correction. Or thirdly, a more severe domestic correction could pull international equities back into their old trading range.

From a sector perspective, a positive development over the past month has been the relative performance of the health care sector. This sector had been under pressure for the last half of 2016 and just broke a long-term downtrend in January. It formed a quick base and advanced very nicely in February and early March. It's biotech component was the most impressive, but the entire sector has shown significant improvement. On the negative front, the energy sector broke a long-term uptrend, a long-term moving average, and an important support level, all in the same day in early March. This sector was a market leader during the late 2016 advance, but has been quite disappointing thus far in 2017. It now resides in 'the basement' with the lowly real estate securities sector as one of the poorest performers for the year.

Bond markets have been trapped in a lower trading range since the election. They declined rather sharply in November as institutions were scrambling for capital to buy equities. Since then they have weathered the interest rate increase rumors and the recent small increase quite well. Bond indexes have established a relatively broad base of their own the past six months. They have been on the sidelines, watching equities enjoy all of the playing time so far this year. It will be very interesting to see if they are capable of breaking out of their lower range back to the upper range they enjoyed most of 2016.

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

Sources: Bloomberg, Marketwatch.com, StockCharts.com, Stock Traders Almanac