Monthly Commentary

May 20, 2015

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

In April's Commentary we spent a considerable amount of time discussing market rotation. If you missed it, or want to refresh your memory, you can quickly access it by going to foyfinancial.com and clicking on Monthly Commentary on the home page. SELECTOR® Monthly Commentaries are archived back to January 2010. Getting back to the market rotation, when markets are transitioning from an uptrend or downtrend into a trading range or sideways market, everything slows down. Trading range markets can drag on for several months, which has been the case for the S&P 500 Index and large cap equities in general. There is a slight upward tilt because while the top end of the range has been flat, we have been seeing higher lows. This past week there has been a muted push into record highs, but without any fanfare or fireworks. There also hasn't been any step up in trading volume, which is important. If we were experiencing a wonderfully dramatic breakout to the upside, it would be accompanied by a dramatic increase in volume. Accordingly, we view the push to new highs as nominally productive and are happy that we aren't mired in the middle or at the bottom of the trading range.

Seasonality may be a contributing factor to the lack of excitement about the S&P 500 Indexes sortie into new high territory. One of the old market adages that surfaces this time of year is 'Go away in May.' It was promoted many years ago by the observance that the best six contiguous months of the year have historically been from November to April. This may also be connected with the 'Summer Doldrums', 'school's out', or even the fact that markets had reached their cruising altitude and are leveling off. Nonetheless, it is not practical nor realistic for an investor to take a 'vacation' in their efforts to accumulate and grow investment assets based on the calendar. Rather than risking a 'Rip Van Winkle event' and missing out on the action, we much prefer to continue to stay awake, stay involved, and continue to pay close attention to the subtle changes that can send important signals.

While domestic equities have been trading-range bound, international equities have continued to climb back to their highs of last July. This move has been quite impressive and we are pleased that we recognized and reengaged with the international equity markets back in February and March. Europe led the initial breakaway and still appears to have room to move higher. Emerging markets popped up later and are now catching their breath in this 'tortoise and the hare' recovery from last year's declines. We are still on the sidelines with emerging markets but continue to monitor their progress. Despite their impressive April dash, there are some 'Don't Walk' signals flashing that are giving us pause. As we have stated in the past, we believe that emerging markets are a sector best visited under clear skies, and not a permanent resident of our portfolio allocations.

Bond markets have pulled back in unison in May after marching to the top of their trading range in March and April. Yes, bond markets are also trapped in a trading range. The Federal Reserve has still not taken any action to permit short-term interest rates to rise into more natural levels. This continues to vex short-term savers and all investors who prudently maintain money market funds, including us. We have seen record levels of corporate borrowing the past couple of months as U.S. corporations continue to take advantage of, and lock in, these very low interest rates for a while longer. Ultimately, this is a pervasive positive for equity markets as businesses continue to clean up their balance sheets, increase their operating margins, and eliminate high cost debt. Interestingly, the American consumer has been taking similar steps in their own households, reducing high-cost debt and locking in low interest rates.

"You can tell a slow news day by the headlines that make it to the first page.'"

You can tell a slow news day by the headlines that make it to the first page. It works the same way with financial news. A lack of action does not reduce the financial newscasters need to report ***something,*** which means that more speculation and sheer opinion is sifting up to the banner headlines. It is almost comical on a day to day basis. Just ignore it. We are on the watch and totally unaffected by the speculative fluff. Long-term trends ultimately tell the whole story and these indicators are in fine shape. Enjoy your vacation!

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