Monthly Commentary

October 19, 2013

SELECTOR Real-Time Money Management

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

I am smiling. Why? Because at Friday's close, every equity sector that we own closed at yearly and/or all-time highs; Large Cap, Mid Cap, Small Cap, Energy, Basic Materials, Healthcare, Pharmaceuticals, Consumer Discretionary and Technology. If you are on board with us, which should be the case if you are receiving/reading this Monthly Commentary, please take time to join me during this warm moment.

This is not a cosmic coincidence because the reality is, most of the U.S. equity market is on a wonderful tear. In addition to the equity sectors named above, Financials, Industrials, and Consumer Staples are at or approaching annual highs. The other two industry sectors, Utilities and Real Estate, have reversed their downtrends and are working higher as well. As we discussed in the September Monthly Commentary, this is a very broad market rally. The only crime is not being involved at all, if you are an equity investor, that is.

A number of people have expressed surprise that this could be taking place when the federal government has been closed and the country has been experiencing such turmoil. Well, equity markets did patiently wait until the recalcitrant children in Washington, DC stopped their quarreling and, for the most part, they waited right by the door. It reminds me of when my brother, John, and I would complain about having to go to church on Sunday morning, all cleaned up and dressed up. We would complain to our parents and fight with each other and whine and fuss to no end. But in the end we were always sitting in those hardwood pews, quiet and attentive.

Americans love/hate their politics. Politics, however, are only one cog on a very large, slow-turning wheel. Financial markets are not impervious to politics, but, generally have a bigger axe to grind. And when they are on a mission, on a trend such as the one that we currently have in place, politics become little more than another distraction. During the past four weeks equity markets made a brief pullback, as if to say, "Don't make me do this on a Sunday," then it was time to get back on schedule and leave for church. The implied threat was enough and the wheel continued to turn.

This is the primary reason that SELECTOR® is a trend-following money management program. In today's financial world, the final determinant of how the world views any security/index/market is reflected in its Price. You can argue the politics, run away with your dreams, or bunker down with your fears, but Price always takes the day. Rather than attempting to become experts in domestic or international politics, or economics, or any other of the dozen cogs in the wheel, we chose to become experts in the wheel itself. How it is aligned, how fast is it turning, is it turning smooth or rough, quiet or complaining? We conduct a technical analysis of the wheel, and of financial markets.

"Someday defense will be the watchword, but for now, let those ponies run!"

Bond market performance continues to lag equities, but several sectors experienced gains in the past month. High yield and convertible bonds advanced with equity markets and most are also at annual and all-time highs. High quality bond indexes are basing well and working higher, though still 5% or more away from their May highs. Utility and mortgage bond indexes, among the hardest hit in the bond market turndown, still have considerable basing work to do. Municipal bonds have shown more signs of life, and an early October pullback was met with considerable interest that worked prices higher last week.

Equity markets continue to look attractive for a number of reasons. First and foremost is the breadth. An advance this broad is less likely to stumble. There is no single leader and plenty of others in the rank and file to pick up the standard and continue the charge. Second, there is the number of new highs that were hit last week. Markets tend to run for a while after breaking out to new highs. Third, look at the calendar. We are in the fourth quarter, historically the best performing quarter of the year, and equity markets love to pile up on the scoring in the 4th. Someday defense will be the watchword, but for now, let those ponies run!

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