Monthly Commentary

September 19, 2013

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

When August's Commentary was being written, equity markets were halfway through a mild correction that continued through the end of the month. By the time September rolled in they were rested and recharged. Most all equity indexes have been rising steadily for the past three weeks. In fact, several equity indexes have climbed to record all-time highs in the past week, including the S&P 500 index. We are not surprised by this show of strength because the short-term, intermediate-term and long-term trends are all positive. While domestic equities have been in leadership mode for most all of 2013, their resilience has recently started to spread overseas. Most developed and emerging market equities are now rising in harmony with U.S. markets.

An increase in participation of various market sectors is called an increase in breadth. These increases in breadth can occur across international markets, across capitalization-weighted markets such as Small Cap and Mid Cap, and across specific market sectors such as Health Care, Energy, and Technology. It is an uncommon and wonderful thing when an expansion of breadth affects all of these sectors and that is exactly what we are seeing right now. Throw in breakouts to new annual highs and in some cases to new all-time highs, and you know the party is in full swing.

It is important to recognize how long it has been since this party, a.k.a. the Bull Market, started. You have to go all the way back four and a half years to March of 2009. This is a mature Bull Market. Someday, like all Bull Markets past and future, it will end. When it does, we will implement much different strategies than the ones that are now in place. But it doesn't make sense to wear a raincoat under a cloudless sky, and you can waste a lot of opportunities ignoring trends like those we now have in place.

Bond market performance this year continues to be very dependent upon the sector. High yield bond and convertible bond sectors are still in positive territory as they continue to hold hands with rising equity markets. Floating rate bonds and short-term high quality bond indexes are primarily steady year-to-date. But municipal bond and high quality bonds, especially the long-term bond sectors, remain sharply lower as investors braced for the return of higher interest rates. Historically, when bond markets have corrected sharply, their descents have been brief, often only two to three months, after which they begin to start building new price bases. We are already seeing that action in several of the bond sectors that have corrected sharply this year.

"Experience rules in this environment."

We believe that financial markets continue to present very interesting opportunities, whether you are trend-following the equity markets or searching for bargains in the bond markets. One fact is very clear, however, this is not an 'easy market.' Late stage equity Bull Markets can be very profitable, very volatile, yet very hazardous. Bond markets that are building new price bases share these same attributes. Experience rules in this environment.

In the August Commentary we discussed our definitions of trends and trend corrections. These terms are vital in understanding our perception and our response to current market price action. If you would like to review the August SELECTOR® Commentary, or any of the Commentaries from the last three years, they are archived on our website, www.foyfinancial.com, under the What's New section. In that section you can also review current and past Quarterly Reviews, short videos, and my blog entitled 'It's Just My Opinion.'

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

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