SELECTOR
Real-Time Money Management

Monthly Commentary

September 17, 2014

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

Essentially, the last month has been a lot of warm oatmeal with sprinkles of Snap, Crackle, and Pop the last five days. Major equity markets continue to hover near record levels, which continues to drive away the market Bears and keep the Bulls full of anticipation. Corporate earnings reports and projections continue to be positive. Retail sales, a major component of our economy, have been strong. The geopolitical issues, ISIS and the Russia/Ukraine conflict, are having little to no effect on our domestic equity markets. We are now halfway through September, historically the most treacherous month of the year, and we see no warning flags in our technical analysis of equity markets, let alone any tornado or gale warnings (depending on your locale).

Currently, bond markets are center stage as the Fed meets this week. Investors expect little to no change to the Fed's previously declared intentions to keep the fed funds rate anchored at zero until 2015. That in itself is a big yawn and an indication of how sleepy bond markets remain at this juncture. High quality corporate bonds have moved into the leadership positions, along with municipal bonds. Convertible bonds, buoyed by their links to equity markets, remain in the upper end of a trading range that has persisted for most of the year. Utility and preferred bond indexes have been quite steady. High yield bonds have been more volatile of late and, while their total return numbers have dropped, their yield advantage over investment grade bonds persist.

Shifting back to international equity markets, the hottest threat is currently ISIS, which is a country-less foe, both militarily and economically. It would be very surprising if this presented any specific or general pressure on domestic or international financial markets. Thus far the political build-up has been virtually void of dramatics as everyone agrees that this is basically a 'rabid dog' situation, and the primary questions are who is going to finance the solution, and who is going to commit ground troops to count the bones when it is all said and done. Given the excruciatingly slow processes that dictate unilateral NATO action, it would be expected that this issue will be with us for the foreseeable future. This has, however, effectively stolen the limelight from Russia/Ukraine, which is currently enjoying a tenuous truce, and equally slow political resolve from the world leaders. Meanwhile, international emerging market equities have become the newest 'darlings' of the international investment scene, exhibiting very positive price action on the technical front.

Which gives us room to segue to the 'very happy place' that is the U.S. equity markets. U.S. equity markets are most obviously in leadership positions from a global perspective. The economic recovery continues to belly-crawl to higher ground while absorbing less-than-positive recent news from the housing and job markets. The brightest points continue to reside in the consumer spending department, which is the biggest driver of the economy. Large cap equities continue their dominance which is a significant positive. It takes immense capital to drive large cap equity markets, a sure sign of ongoing institutional money flows, both domestically and internationally. Mid cap equity markets also continue to reward investors. The stinker in the bunch is small cap equities, which are effectively alienating themselves from any sympathy. Like a misbehaving child, their antics have tested the patience of the most 'grandmotherly' of institutional investors, and it appears that even their intermediate-term prospects are dwindling.

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From a sector perspective, pharmaceutical and healthcare equities have once again enjoyed a recent push higher. They are joined by real estate and technology sectors on the YTD leaderboard. Real estate securities did experience a particularly sharp pullback recently that appears to have been curbed in the last week. And last but not least, financial services equities have finally rewarded investors with a long-awaited breakout to new highs. Over the past three months the energy sector has exhibited significantly weaker prices and, over the past month, the precious metals sector has dropped quite sharply. This continues to refocus attention on the core leadership of the large cap U.S. equity sector. Accordingly, until we see signs to the contrary, we remain with an on-course heading of 'higher' with an ongoing commitment to domestic equities, spiced up with a touch of emerging markets equities.

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