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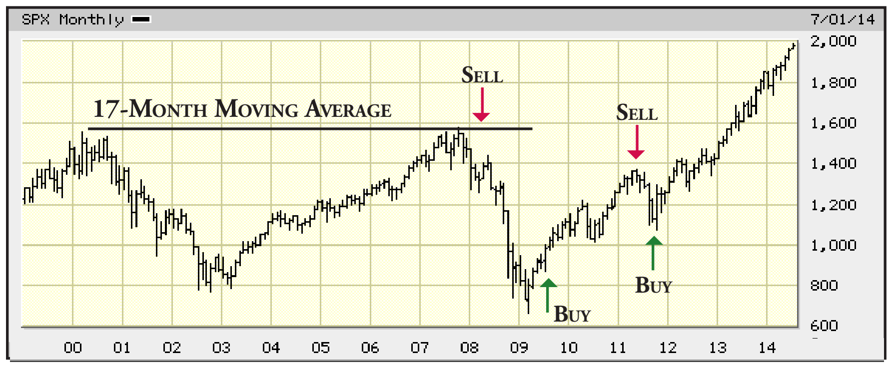
Investment Assessment
July 2014

The Dow Jones Industrials and Standard & Poors 500 both rose during the first half of 2014. Overall, the S&P500 Index rose 6.0% and the DJIA 1.5% in that time period.* So now we ask the same question posed in our Outlook 2014 published in January: is this a last gasp rally or is the bull market to continue?



The chart of the S&P500 on this page holds important clues to the primary trend of stock prices. The chart plots the price of the S&P Index over the last fifteen years together with the index's 17-month moving average. For our purposes, we will define a bull market as a market with the index price above the moving average and a bear market as a market with the index price below the 17-month moving average. You will note that almost all of the losses in the index - the bear market of 2002-2003 and the collapse of stock prices in 2008 and early 2009 - were signaled by a penetration of the 17-month moving average very early in the declines. The chart also illustrates the range-bound market that existed from 2000 to 2012, which proved to be so frustrating for buy and hold investors.**

Because asset allocation and proper investment timing are so important in achieving positive investment results, let's consider the usefulness of methodology that can assist in determining primary market trend. 2008-2009 produced a financial crises for Wall Street, Main Street and certainly for individual investors. The Dow Jones Industrials and S&P500 declined for fifteen months, causing serious investment losses to most investors. In hindsight, we know that the trend of stock prices went negative beginning in December 2007 and the market did not hit bottom until March 2009. The S&P500 moved above its 17-month moving average on a closing basis in September 2009 and remained positive for all but two months of 2011. An investor using the 17-month moving average as a buy/sell indicator could have avoided the 2008 market decline.

Now, considering the market's current condition, this chart has two messages for investors to consider: 1) the long term market trend remains bullish; and 2) the character of the market has changed - we are no longer in a range-bound market.

Near-Term Market Direction

As outlined in Outlook 2014, the primary movement of the market is a confirmed uptrend that began in 2009. The Federal Reserve is not tightening money supply or trying to increase interest rates. To the contrary they are accommodative and are intent on keeping interest at historical low levels. Public participation in the market remains subdued - we do not have broad public participation or a frothy bull market. Nonetheless, we believe there will be a better buy point for equities in the next few months.

Following relatively modest price gains during the first half of 2014, we would expect the direction of stock prices to follow a seasonal pattern. There is a tendency for stocks to generate positive returns from November through April. May through October is a different story. Over the last sixty years, the average return in the May through October interval is virtually nil. We continue to look for a short-term market correction in the 8% to 12% range. This would afford us an opportunity to increase equity positions during a period of general market weakness.

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*Source for percentages and figures quoted: QUOOD Financial Services.

**Chart of the S&P500 provided by BigCharts.com

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