

## Investment Strategy

U.S. Markets	Close	Net	1 Day %	YTD %
Dow Jones	16201.32	-78.57	-0.48%	-9.10%
Dow Jones Transports	7781.38	-79.90	-1.02%	-14.86%
Dow Jones Utilities	566.81	4.42	0.79%	-8.30%
S&P 500	1932.24	-6.52	-0.34%	-6.15%
S&P 400 Midcap	1390.62	-6.50	-0.46%	-4.26%
S&P 600 Smallcap	663.23	-0.49	-0.07%	-4.58%
NASDAQ	4734.48	-18.26	-0.38%	-0.03%
Russell 2000 (Smallcaps)	1137.54	-2.52	-0.22%	-5.58%
BKX (Banking)	69.10	-0.39	-0.56%	-6.95%
BTK (Biotech)	3707.54	-64.96	-1.72%	7.81%
XOI (Oil Index)	1059.48	4.29	0.41%	-21.41%
SOXX (Semiconductor)	589.71	-1.03	-0.17%	-14.15%
XAU (Gold/Silver)	47.89	3.28	7.35%	-30.37%

## "I Got Trends in Low Places"

If you follow our commentaries regularly, you may have noticed that we have been a tad conflicted lately. On one hand, we have long held the belief that we are in the midst of a long-term secular bull market that has years left to run, and that any dips or corrections should be viewed within the context of this multi-year uptrend (and this view may still very well end up being correct when our future selves look back on this frustrating time in market history and laugh at our skittish cautiousness). However, the sinister other hand has thrown an unwanted variable into the equation by giving us the Dow Theory Sell Signal that we have discussed quite a bit over the last month. Since Dow Theory is highly regarded for determining the primary trend of the market, it is something we take very seriously, and we respect it enough for it to trump our fallible opinions unless there is sufficient evidence to indicate it might be wrong. And since I do not enjoy being wrong, I have been searching quite extensively for such evidence that may help clarify the long-term outlook. This search, not surprisingly, led me to the brilliant team at Sentimentrader.com, which apparently is also curious as to what the action of the Dow Jones Averages recently might mean for stocks going forward. They included a study in their Wednesday sentiment report that, while not a perfect examination of Dow Theory, per se, does follow the same line of thinking by looking at times in market history when the Dow Jones Industrial Average, Transportation Average, and Utilities Average all hit 52-Week Lows within two weeks of each other. The results, fortunately, do not indicate that the bottom is about to drop out of this bull market, with the average return of the DJIA over the following 2-week, 1-month, 3-month, 6-month, and 1-year periods all being positive. Even better, when they zeroed in on just those cases where the DJIA had touched a 3-year high within the past six months prior to this signal (as is the case this time), the subsequent performance was even better, with an average gain of 14.8% over the next year. Now, this bit of good news obviously isn't enough for us to completely throw caution to the wind and go all-in here, but it does put the current landscape into context and give some hope that this correction will not escalate into anything worse.

And the market finally cooperated yesterday by giving us a decent looking "candle" on the charts of the major averages. The S&P 500 dipped initially, falling down into the 1900-1913 support zone I have mentioned, before it found some buyers around 11 a.m. and rallied into the end of the day to only close down about 5 points. That's the type of market action I like to see, and hopefully sets us up for a follow-through today. 1940-1950 is the first hurdle to overcome, but, once again, I think 2000 is the real line in the sand on the upside that needs to be jumped.

"A wise man proportions his belief to the evidence."

...David Hume, Philosopher (1711-1776)

Index	Cur Future	Change
Dow Jones	16,325	226
S&P 500	1,943	24
NASDAQ	4,295	48.5

  

Volume	1 Day Volume	Volume	Issues
NYSE	1,031,382,742	0.7	0.7
NASDAQ	1,998,740,000	0.8	0.7

  

Foreign Markets	Intraday	Net	% Chg
U.K. FTSE 100	6,109	147.19	2.47%
Germany DAX	9,679	251.44	2.67%
Brazil Bovespa	45,292	-48.15	-0.11%
Japan Nikkei 225	17,881	308.68	1.76%
Hong Kong Hang Seng	21,186	90.34	0.43%

  

S&P Sectors	Close	% Chg	1 mo %
Consumer Discretionary	592.86	-0.31%	4.91%
Consumer Staples	484.52	0.10%	2.45%
Health Care	794.47	-1.05%	0.02%
Information Technology	669.32	0.00%	5.63%
Telecom Services	141.03	-0.08%	-1.21%
Energy	455.58	0.41%	3.93%
Financials	303.00	-0.72%	-0.42%
Industrials	429.79	-0.70%	0.48%
Materials	253.12	-0.29%	-2.40%
Utilities	214.98	0.82%	-1.93%

  

Key Commodity Prices	Last	Net
Crude Oil (WTI)/bbl	45.30	0.39
Natural Gas/mmbtu	2.66	-0.02
Gasoline (USD/gal)	1.37	0.00
Gold/oz.	1144.40	-9.40
Silver/oz.	15.06	-0.07
U.S. Dollar Index	96.15	-
Copper (USD/lb.)	2.30	0.00
Cotton #2 (USD/lb.)	60.40	0.09

  

Market Valuation	2014	2015E	2016E
Consensus S&P 500 EPS	\$113	\$112	\$130
P/E	17.1	17.3	14.9
Earnings Yield		5.8%	6.7%
Equity Risk Premium (10 yr)		3.7%	4.6%

  

Treasury Yields	90D	10 Yr	30 Yr
	0.01%	2.12%	2.90%

Source: Thomson Reuters Data as of: 6:59 AM



Source: TC2000

**U.S. Markets Index Information:** *U.S. Treasury securities* are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. The *Dow Jones Industrial Average* is an unmanaged index of 30 widely held securities. The *Dow Jones Transportation Average* is the most widely recognized gauge of the American transportation sector. The *Dow Jones Utility Average* keeps track of the performance of 15 prominent utility companies. The *S&P 500* is an unmanaged index of 500 widely held stocks. The *S&P Mid Cap 400 Index* is a capitalization-weighted index that measures the performance of the mid-range sector of the U.S. stock market. The *S&P Small Cap 600 Index* is an unmanaged index of 600 small-cap stocks. The *NASDAQ Composite Index* is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The *Russell 2000 index* is an unmanaged index of small cap securities which generally involve greater risks. The *KBW Bank Sector (BKX)* is a capitalization-weighted index composed of 24 geographically diverse stocks representing national money center banks and leading regional institutions. The *NYSE Arca Biotechnology Index (BTK)* is an equal dollar weighted index designed to measure the performance of a cross section of companies in the biotechnology industry that are primarily involved in the use of biological processes to develop products or provide services. The *NYSE Arca Oil Index (XOI)* is a price-weighted index of the leading companies involved in the exploration, production, and development of petroleum. The *PHLX Semiconductor Sector Index (SOXX)* measures the performance of U.S.-traded securities of companies engaged in the semiconductor business, which includes companies engaged in the design, distribution, manufacture, and sales of semiconductors. The *Philadelphia Gold and Silver Index (XAU)* is an index of 16 precious metal mining companies that is traded on the Philadelphia Stock Exchange.

**Futures:** Futures prices are current as of the publication of this report, but will fluctuate. Please contact your financial advisor for updated information.

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