Market Commentary: April 2013

As the U. S. stock market, as measured by the S&P 500 Index[1], hit a new all-time high at the end of the first quarter, the question naturally becomes, "Is this for real?" And then, "How far can/will it go before the next crash?"

After a 12-year-long bear market which began with the bursting of the technology/internet bubble in 2000, investors just can't seem to believe in this market. Here are three reasons why I think that the current rally has a ways to go, at least in the immediate future:

1. My most reliable research newsletter, from Investech Research, has a nifty chart that they have used during past bull markets called the Bear Market Warning Flags. At least five of six of these warning flags have appeared prior to every bear market since 1966. How many flags are flying today? Zero! One flag is in questionable mode right now, a far cry from the usual warnings.

2. Late last week, headlines appeared that warned of an imminent drop in the markets because we had seen 10 "up" days in a row. Because of this, conventional thinking said that the market just had to correct. But several measures of short term over-bought or over-sold indicators have not been flashing the warning signs normally seen before a drop, leading me to think that the market may not be so vulnerable.

3. Finally, there is an old saying that bull markets climb a "wall of worry". Today's investors are skittish – I see this in conversations with clients and by observing the continued emphasis in the investment community on "alternative" investments.

So, the answer to the first question is "Yes, for now the rally in the stock market is for real". However, we will likely have a correction (a fallback of 5% to 10%) sometime this year. Bull markets like the current one generally do not go straight up all year long but can fluctuate somewhat. So what could bring the end of the current bull run? Three things to watch for:

1. Rising interest rates on the bellwether 10-year Treasury[2] note, and/or a weakening of the U.S. Dollar in world markets. These unfolding trends can have many causes, but the Federal Reserve's bond-buying program will get the most attention for now.

2. A weakness in economically sensitive stocks such as small companies, industrials, transportation, and technology, which can come even while the broad markets continue to advance.

3. A "capitulation" by the so-called "Perma-Bears", those who are always negative about the future direction of the markets and economy in general, no matter what. When a number of negative-outlook advisors have given up and joined the bull market, it will probably be time to look for a topping out.

---

[1] *The Standard & Poors 500 Index (S & P 500) is an unmanaged index of large company stocks considered to be representative of the US stock market. Investment cannot be made directly into an index. Past performance is not an indication of future results. Future returns are not implied nor guaranteed in any way.*

[2] *A 10-year Treasury Note is a debt obligation issued by the United States government that matures in 10 years. A 10-year Treasury note pays interest at a fixed rate once every six months and pays the face value to the holder at maturity.*

As I have written in previous commentaries, the most important factor to financial success is not market timing, but the process of matching your investment strategy and allocation to your long term goals, reviewing your financial and life situation on a consistent basis, and making whatever changes are necessary to stay on target with your stated goals and plans. While there are times to be more cautious and times to perhaps be a little more aggressive, each investor's goals and temperament will determine their long term strategy. Today's market condition means we do not need to be more cautious, nor more aggressive, than usual.

Remember, as always, we prefer to hear from you with your *"Here's what I'm thinking about"* questions, rather than your *"Guess what I just did"* comments.

The statements above are the opinion of Kevin N. Tucker, CFP, as of April 1, 2013 and are subject to change at any time without notice. The above statements are not a recommendation of any investment product nor a solicitation to buy or sell any security. Past performance is not an indication of future results.

Tax Season:

Tax season is rapidly drawing to a close. Truthfully, we have enjoyed less stress this first quarter of the year, not having the added work of tax preparation, and we hope you have been able to make a smooth and positive transition to your new tax preparer. Just a reminder: We are always available if you have questions on tax issues, as tax planning is a vital part of the overall financial planning work we do for our clients. Please do not hesitate to call us if you have questions or concerns about any aspect of your financial situation.

Dates for your Calendar:

TFS offices will be closed Monday, May 27th, for Memorial Day.