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**MARKET COMMENTARY**

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**Dow Jones Industrial Avg. 16,826.60**  
2014(YTD) + 1.5%      2<sup>nd</sup> Qtr. + 2.2%

**Standard and Poor's 500 1960.23**  
2014(YTD) + 4.7      2<sup>nd</sup> Qtr. + 6.1%

**Secret to Timing the market** – “People somehow believe you must buy at the bottom and sell at the top. That’s nonsense. The idea is to buy when the probability is the greatest that the market is going to advance.” Martin Zweig – (fund manager and author of *Winning on Wall Street*)

**How high is up?** - It is always exciting to explore new frontiers. Today’s adventure involves exploring the creases and crevices of the mind of an investor. All minds are unique, however it is helpful to understand they share some common traits. Two approaches investors have are the rational and emotional methods for selecting their investments. The talking heads and their guests on CNBC and Bloomberg can be confusing and contradictory with their esoteric banter, yet it can be helpful to determine if the opinions they provide have a justifiable basis. In the mind of the rational investor, stock prices can be justified by the numbers companies generate starting with revenues and earnings. Wall Street analysts, who embody the term “ultimate rational investor” go well beyond the obscure details of the balance sheet and income statement into the deepest recesses of a company’s financial reporting. When possible, they speak with company executives to determine their plans for the company’s future. They are the C.S.I’s ( i.e., crime scene investigators) of the investment world. They provide the rest of us their well thought out, thoroughly documented recommendations.

At the other end of the spectrum is the emotional investor. Rather than being a slave to the numbers, this investor is often characterized as being driven by fear and greed. Corporate results are of little or no consequence, instead the focus of attention is on the trends of price and volume. The technicians who populate this analyst camp are more reliant on charts and graphs which describe the trends of the markets. Momentum investing is a subset of this group. As the term implies, buying interest grows as prices increase and diminishes as prices decline. Simply put, a momentum investor wants to go with the flow. Blogs and chat rooms are popular gathering spots for their exchange of ideas. It does not matter whether a company is profitable or even what the company’s business is. The technical approach tends to encourage a more active trading style, which focuses on the specifics of trading history. Given the stock market’s healthy advance over the past eighteen months, investors are increasingly being drawn to the momentum camp. This shift in emphasis can be interpreted as a sign of market vulnerability as less committed investors move to the fore.

**Cash as Security Blanket** – As investor unease with the market becomes more evident, it is prudent to consider adopting a more defensive stance. Two of the primary funding sources for the recent advance are the rapid growth of exchange-traded funds and the ever-expanding list of companies prepared to buy back their own stock. Since it is unlikely these two sources will be able to continue to expand indefinitely, additional sources of funds must surface if prices are to continue higher. Using history as a guide, the final wave of any prolonged advance is fueled by momentum traders; reluctant, tentative investors who do not want to miss the rally; and the uninitiated, unsophisticated first-timer hoping to make a quick buck. These are the lambs being led to the slaughter. Does this mean a serious market decline is looming? Not necessarily, but it means a yellow light is flashing and a degree of caution is advised. It is often suggested that the stock market is driven by fear and greed. A nod to fear seems advisable at this time.

One way to minimize the impact of any market decline is to accumulate a cash cushion. Many investors are loath to hold much if any cash. In actuality, this is one of the advantages individual investors have over institutional investors. What does a cash reserve provide an individual investor? It provides a cushion of safety and a level of flexibility – both of which can be tailored to an individual's projected needs and risk tolerance. Institutional investors' primary concern is performance, every quarter and every year. They strive to meet or beat any benchmark to which they may be compared. Their ability to gain and retain business depends on how well they measure up. Most equity or balanced funds stipulate a minimum percent must be invested in equities. It is impossible for the managers to determine the personal needs or preferences of their investors. Unless an individual is working with an advisor, he or she must assess the riskiness of their holdings and make the appropriate adjustments. Have you set aside sufficient cash to meet your needs over the next six months or a year? Consider doing it now.

Both the stock and bond markets have provided positive gains during the first half of the year. The stock market, in particular, appears to have been laboring over the past month. It may just be the summer doldrums, however the market's lackluster performance over that period has suggested a correction of some magnitude may be in the offing. On July 31 the Dow Jones Industrials fell 317 points. When coupled with the more than 90 point decline in the S&P 500, they provided evidence of the market's vulnerability. Rather than waiting until the end of the year to do some tax selling, investors should consider culling any underperformers now. It may also be worthwhile to consider trimming back some winners whose valuations seem difficult to justify. Try to offset gains with any available losses. Do not feel compelled to reinvest the proceeds right away, unless an especially attractive opportunity presents itself.

**What Next from the FED?** - What about the outlook for interest rates and the bond markets? There is very little good to say about the near-term prospects for bonds. All eyes are on the Federal Reserve (i.e., FED) and Chairwoman Yellen. As the FED begins the delicate task of dialing back Quantitative Easing (i.e., QE), bond participants are nervously monitoring the effect of these maneuvers on interest rates and bond prices. Once again the prevailing consensus is rates will gradually move higher because of the improving economy and the less aggressive FED. Short-term rates have begun to inch higher, and bond investors are more anxious about their lesser quality holdings with credit spreads at such unfavorable levels (exceedingly narrow). Investors are advised to focus on the short end of the interest rate curve. Although the FED has signaled it intends to continue to promote low interest rates, any upward adjustment will quickly result in a negative total return. Until the course of the economy and the stance of the FED are more evident, it is suggested that the first priority be preservation of principal.

**Housekeeping** - Each year at this time we are required to provide you a copy of our privacy statement, as are most other financial service organizations. We regard safeguarding the financial information you have shared with us as an integral part of our fiduciary responsibility to you. One piece of information we ask you to share with us, if you have not already is your e-mail address. Having it allows us to communicate more effectively with you either about general events in the financial world or your specific financial situation. Our email addresses are as follows: [john@lenkladner.com](mailto:john@lenkladner.com), [geoff@lenkladner.com](mailto:geoff@lenkladner.com), [carie@lenkladner.com](mailto:carie@lenkladner.com) and [connie@lenkladner.com](mailto:connie@lenkladner.com).

In addition, to help insure your privacy, we are planning to do some serious shredding of records at our office. If you have a stockpile you would like us to include, let us know so we can gauge the level of interest. Once we have an approximation, we will schedule a date for the shredding truck to come to our office and all documents will be shredded on-site into confetti like pulp then transferred to a recycling facility to be transformed into other recycled products. Any records you deliver to us will be kept under lock and key until the event occurs. Enjoy the rest of your summer. JML