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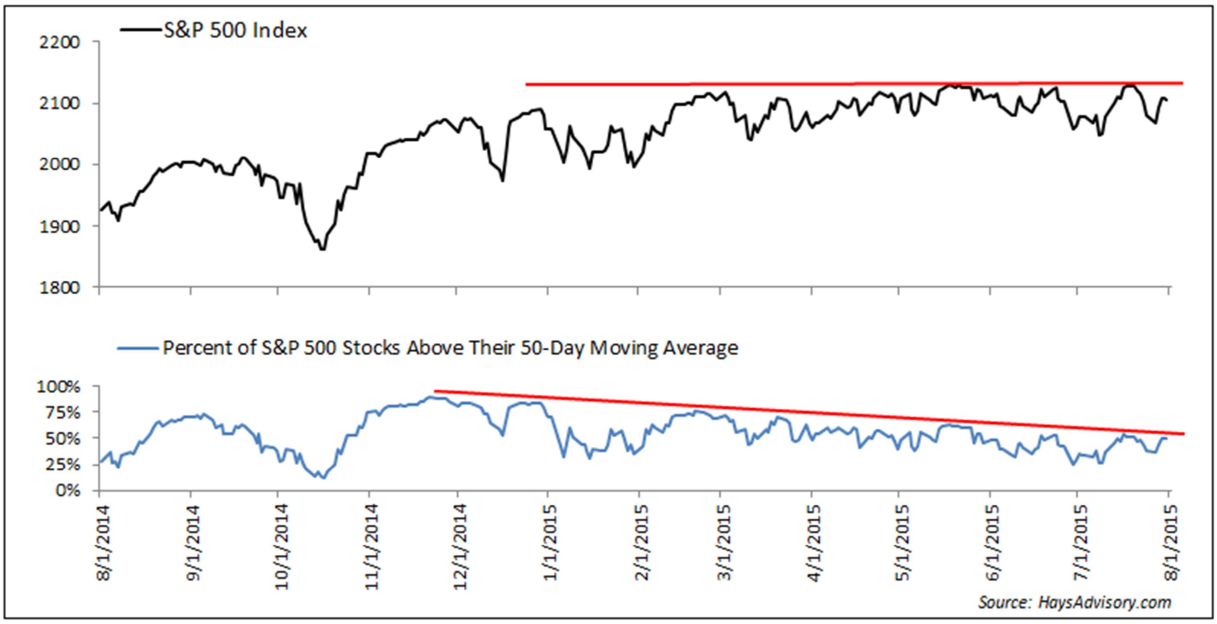
Stocks Near All-Time High—But That's Not the Whole Story

July Market Review From Your Portfolio Management Team—August 12, 2015

No doubt there have been a few days this year that you've turned on the nightly news and heard that stocks made a new all-time high that day or came close to doing so. While the year started off with a very choppy market in January, it surged as February rolled around, and by the time March was here, the market was closing at a record high. However, since the March high, stocks have been in a tight trading range, without much movement in either direction, or as we like to say at FSA, the market is currently in a landing (staircase reference to either steps going up or going down, or in a landing).

As we've discussed before, we are never sure which direction stocks will ultimately move from these landings; however, this landing has us more cautious than we might be otherwise. Each time the market has made an up move within this landing, we've seen fewer and fewer stocks participating. One way of viewing this is by looking at the percentage of stocks in the S&P 500 that are trading above their average price over the past 50 days. When the market makes an up move, or even reaches a new high, and the percentage of stocks participating is less than it was during the previous up move, that tells us fewer and fewer stocks are holding up the index. In other words, the relative strength of the S&P index is masking what the typical stock is experiencing. You can see evidence of this in the chart below.



One Church Street, Suite 901 | Rockville, MD 20850 | 301.949.7300 | 800.235.4567
5237 Summerlin Commons Blvd. | Fort Myers, FL 33907 | 239.489.3346
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Furthermore, the *Wall Street Journal* recently ran an article titled "The Only Six Stocks That Matter" highlighting that six stocks accounted for more than the whole gain in the S&P 500 for the year. In other words, the other 495 stocks in the index are actually down as a group. Those stocks are Amazon, Google, Apple, Facebook, Gilead and Disney. The Ned Davis Research Group did some further analysis after the article was published, and they found that nearly half of all S&P 500 stocks are either flat or negative for the year. Furthermore, they found that over 20% of S&P 500 stocks are already in a bear market (down 20% or more).

The results of this study, along with the chart above, suggest that the market has been in an "internal" correction these past few months as fewer stocks have been participating. Since fewer stocks are carrying the index, any weakness in these recent leaders would likely lead to a more visible breakdown in the broader market, so we're watching closely to see if the lack of participation materializes into more of an "external" correction, which pushes the S&P 500 off the landing it's been in for most of this year.

For now, we remain nimble in our portfolios as we've built up some cash positions (and will continue to do so if weakness develops). This will allow the portfolios to hold up well if the landing breaks down. At the same time, our cash positions also put us in a good position to invest in leading areas of the market if we do see the market break into a new uptrend, with more stocks participating in the up move.

FSA Investment Team