Financial Services Advisory
GROW WISER®

Stocks and Bonds Struggle to Find Direction

April Market Review From Your Portfolio Management Team—May 12, 2015

Stocks continued their seesaw pattern in April, with the S&P 500 rising about 1%, after falling about 1.5% in March. Energy stocks had a nice rebound from their weakness in the first quarter, while stocks of smaller companies retreated during the month. The dollar fell during the month which enabled most foreign investments to post gains in April.

Most domestic bond categories were flat or down slightly in April, while most foreign bonds were higher, thanks mostly to the drop in the dollar.

More specifically, it was a tough month for interest rate sensitive areas, including utilities, REITs, and long-term bonds, as interest rates rose. Even though the economic news is mixed at best, investors seem very twitchy about the prospect of the Fed beginning to raise interest rates. In addition, it has been a pretty dull earnings season, with quarterly profits pretty flat from a year ago. No surprise that the stock market is choppy with earnings growth that anemic.

The government's first estimate for growth in the economy came in well below expectations at essentially zero (0.2%) for the first quarter. This weak number, along with some other more modest results from other economic indicators has many investors fretting that the U.S. economy may be weaker than many had thought. The standard theory is that a bad winter in the northeast has created these weak economic numbers, and we should see them rebound as we go forward into the spring and summer. As a result, however, every 'bad' number leads to a down day in the stock market, while a 'good' number leads to a rally. It's no wonder the stock and bond markets can't decide which way to go.

From our vantage point, these are exactly the conditions that create the so-called landings, which occur after a sustained rally or drop in stocks (or bonds). Prices move up in a relative stair step fashion and then stall out for a period of time. The large-cap indexes, such as the Dow Jones Industrial Average and the S&P 500, have been in this stalled out position for 3 – 6 months. While our portfolios are carrying fairly low money market positions, none of the five strategies is fully aggressive, as we wait for the markets to break out of this current landing.

The table below shows the broad asset allocation of the five strategies that FSA manages. Notice that we are beginning to include some international funds in the portfolios, an area where we have been underweight for several years.

Strategy	US Stock Funds	Foreign Funds	Inverse Funds	HY Bonds	Quality Bonds	Money Markets
Tactical Growth	60%	15%	5%	10%	0%	10%
Core Equity	75%	5%	0%	5%	N/A	15%
Conservative Growth	50%	10%	N/A	0%	35%	5%
Income & Growth	45%	0%	N/A	0%	50%	5%
Income	N/A	N/A	N/A	25%	70%	5%

Note: Allocation percentages are as of April 30, 2015 and are an average of all accounts within the strategy. Individual account allocations may differ from these averages.

If the stock market weakens from these levels in May, we will be pretty quick to lighten up in the most impacted areas. On the other hand, if the broad markets can break to new highs, we will push the portfolios into some of the leading areas as we move towards the summer. In addition, if interest rates continue to push higher from these levels, we will begin to trim back our bond positions. In some cases, we may even add ‘inverse’ bond funds which are designed to go up in value when typical bond funds fall.

Managing portfolios during these landings can be frustrating as prices seem to rise for awhile and then give the gains back quickly. But this pattern occurs rather frequently and patience is the key. We want to make sure we don’t give back our gains if the landing gives way to a more serious correction, so we will continue to maintain our discipline until the stock and/or bond markets give us the all clear sign.

Ronald Rough, CFA
Director of Portfolio Management