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April 16, 2014 Dow Jones Industrial Average: 16,424

After a Rocky Beginning of the 2014, Now What?

The stock markets (Dow Jones Average and the S&P 500 Index) came off of a huge 30%+ gain in 2013. The overall feeling among market strategists is that when you have a "Great" year, the following year tends to be a "Good" year. A good year is essentially translated into an 8-10% gain in the overall markets.

I am starting to feel like 2014 will be like a rollercoaster in the "kiddie section" of a Six Flags theme park. The stock indexes are probably not going to see the steep falls or monster climbs like the "Screaming Eagle" (which either makes your stomach fluttery or makes you sick to your stomach), but will most probably have modest dips- before coming back to even, and slowly move higher.

Since October of 2013, the stock markets have had three sell-offs of roughly 5% and then has seen a recovery. Over the past two weeks, the NASDAQ momentum stocks and biotech stocks have seen a sell-off close to 20%, while the broader NASDAQ dropped almost 9%. Most of the selling occurred in the names like Tesla, Priceline, Amazon, etc….those stocks were aggressively bought by "traders" that ran the prices of the stocks up- and then, of course, tried to make money on the downside of the stock (by selling the stocks short).

> There was a news report about 10 months ago that showed that the margin balance / borrowing against the value of a stock portfolio was at record levels.
>
> **Art Cashin (floor trader with UBS Financial) said recently, on CNBC, that some of the selling of these "trading stocks" may have been accelerated with "margin calls"- which requires an investor to either put money into their investment account or sell some of the investments to make up for the drop in the account value. ***

So, the big question on the mind of investors is the following:

Are we going to see a Sell in May and Go Away, like we have seen in past years???

With great caution and perhaps too much optimism- I will not be advocating a sell in May & go away, as I have in the past years—for the following reasons:

- The long, drawn out winter may have pushed out the hiring of new employees to the spring timeframe, which may continue to accelerate over the coming months.

  Almost like, putting a kink in a water hose- a small amount of water gets through the kink (kink = harsh winter, in this case), but as the kink is removed- the pent-up water will be released. Maybe not a great example, but I think that the overall economy is getting stronger, and the employment numbers are coming above expectations. So, if the economic and unemployment reports continue to come in with strong numbers- I do not foresee a prolonged sell-off in the market.

- The Federal Reserve is communicating that they are not looking to raise rates for another 2 years. This is in conjunction with the Federal Reserve Bank, which is reducing their involvement in the overall market—meaning, that the Bank is reducing their monthly bond purchases, due to better than expected economic reports. These monthly purchases were injecting dollars into the banking system, with the idea of stimulating the economy.

  When the Federal Reserve Bank is reducing their footprint in the economy, this translates that the economy is starting the stand on its' own two feet, and does not need the crutch of stimulus.

- With the recent sell-off in the growth segment of the market (which we already discussed), and some rotation out of the "frothy" names…the market seems healthy, and may have "shook off" some of the momentum traders.

Bottom-line: with an improving economy, stagnant interest rates (that have already bounced off of its low levels), and a market that has seen a recent minor-correction—I think the market is well situated for the next few months.

I have a positive outlook-- with the caveat that we may see some "kiddie-ride" type of dips in the market. Outside of some major shock to the system, the minor dips should be seen as a periodic "alignment" to the overall direction of the market.

Remember: when investments move straight-up, investors should be concerned.

Certainly, if you have any questions or would like to schedule a time to review your investment accounts, please let me know.

Another topic: I will be hosting a client appreciation event over the next 60 days, please keep an eye out for the announcement, as we finalize the event…the venue will be the Funny Bone Comedy Club.

***** The Economic Collapse. **18 Signs that Massive Economic Problems are Erupting All Over the Planet. June 2, 2013.**
Read more:
http://theeconomiccollapseblog.com/archives/18-signs-that-massive-economic-problems-are-erupting-all-over-the-planet