

April 25, 2014

Dear Investors,

Two weeks ago, I discussed the probability that the markets could bounce higher following the steep sell-off from their April 2nd highs to their April 11th lows. In fact, the markets surged higher over the next six trading days following my April 11th letter recapturing most of the early April losses, but the S&P 500 Index fell 11 points shy of its April 2nd high. The last three trading days appear to be a corrective decline following the six-day surge, which sets up interesting possibilities for the coming days. First, since the bounce was so powerful and so fast, the last three days' sideways move could be a brief respite for another move higher. If the broad market index can surpass its April 2nd high of 1,890, then we should see a strong move higher. The second alternative is that the markets move higher following a brief decline but do not surpass their previous highs. If that were to occur, then it would support the premise that the April 2nd highs could be the highs for the year. The third scenario is that the markets continue to decline and retest their April 11th lows. If the markets break below their previous lows then there is a high probability that the markets have started a prolonged decline. If they trade lower but do not break below the April lows then we should see the markets move higher to new all-time highs.

Following last week's surge higher, the markets spent most of this week in a very narrow trading range. The Dow Jones Industrial Average dropped 47.08 points, or -0.3%, this week to close at 16,361.46, and is down 1.3% this year. The S&P 500 Index slipped 1.45 points, or -0.1%, this week to close at 1,863.40, and is down 0.8% this year. The NASDAQ Composite lost 19.96 points, or -0.5%, to finish the week at 4,075.56, and is now down 2.4% for the year. The Russell 2000 was the largest percentage loser of the week as it lost 14.87 points, or -1.3%, this week to close at 1,123.03, and is now down 3.5% in 2014.

The economic data over the last two weeks was mostly disappointing, which is further support that the markets' bounce over the last two weeks was more a technical move than a fundamental move higher. In fact, all of the housing-related data, including March building permits and new and existing home sales data, were well short of expectations. Two weeks ago, seasonally-adjusted first-time unemployment claims dropped to their lowest level in several years but bounced higher again this week. It will be interesting to see the May Jobs Report now that tax season hiring is behind us. This week, we will get the first estimate of the first quarter GDP, which is expected to show a 1.0% growth rate, which will be blamed on the weather rather than on prolonged under-employment. The bottom line is that there was no outstanding economic data to suggest that our economy is growing at a pace that is enough to sustain the current market valuations.

This is an extremely difficult time for investors nearing retirement or those who have recently retired and are seeking a yield with minimal risk. As the stock market is near all-time highs, the downside risk is far greater than the upside potential. The bond

market yields are at 30-year lows, which means that there is nowhere to go but up and as yields move higher, existing bond prices move lower. With the largest segment of the population retiring without enough income to sustain their previous spending patterns, you cannot simply ignore and invest the way that you have done in the past.

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Best Regards,

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