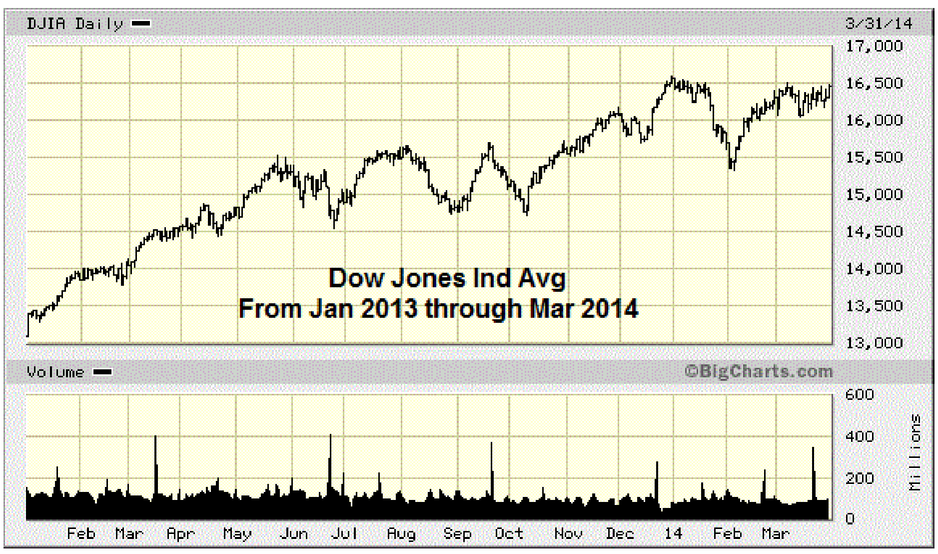
American Heritage Financial

April Update April 2, 2014

Live by the Sword, Die by the Sword

Momentum Takes a Beating: Some of the hottest performing stocks over the past year have taken a beating since mid-March. Think names like **Chipotle Mexican Grill** (CMG), **Netflix** (NTFX), **Facebook** (FB), **TripAdvisor** (TRIP), **Pandora** (P) and many biotech stocks. At their recent peaks, these stocks were priced two to three times higher than they were at the beginning of 2013, but the wind has suddenly been sucked from their sails. A group of 24 such companies compiled by Credit Suisse lost $63 billion in market value, or 19 percent of their collective value, as of late March.



Most of these are well-known, well respected companies with great businesses and brilliant futures (some critical earmarks of a great investment). But their popular business models and corporate successes have caused investors to act like finalists at a hot dog eating contest. Even long after their stock prices disconnected from the reality of the true value of the companies, the current batch of momentum stocks continued to rise. Investors bet on the greater fool theory when they pile in to this kind of stock, pushing prices ever higher until the music untimely stops. That is how **"momentum"** investing works, and why it reminds me of the ancient parable, ***"Live by the sword, die by the sword."***

Index Returns as of 3/31/14			
INDEX	**Close 3/31/14**	**% YTD Chg**	**% 52 Wk Chg**
Dow Jones Industrials	16457.66	-0.7%	12.9%
Dow Jones Utilities	532.13	8.4%	4.8%
NASDAQ Comp	4198.99	0.5%	29.6%
S&P 500	1872.34	1.3%	19.8%

While the reversal in hot stocks sends a warning to those who have been enjoying the party, it is also sends a message to those of us who try to avoid hot air and hype. It is a sign of a *reduction of the overall risk appetite for the market*. It also indicates that the investing world may be returning to *more normal rules*, including sharper assessments of the risks in different stocks and sectors. The likely cause of the sudden reversal in March—other than the fact that trees do not grow to the sky—was slightly more hawkish comments by new Fed Chairwoman Janet Yellen, along with the Fed continuing its gradual reduction of the bond-buying stimulus program, resulting in concerns that the future will have less "easy money" sloshing around.

We should also point out that **the pain in the momentum area is mostly isolated to that world.** The wider stock market isn't in the crosshairs and some sectors are actually benefiting as money is switched out of hot stocks into more out-of-favor ideas. (Note the outperformance of the Dow Utility Average during the first quarter in the attached chart. That is after utilities were significant under-performers in 2013.) If money is rotating to other areas of the market it is an encouraging signal that the momentum weakness **is not an early sign of the death of the bull market.** Rather, it is another indication of the resilience this market has long demonstrated. While we have become increasingly concerned that the long uninterrupted ascent of stock prices since November 2012 is overdue for a normal correction, we remain strongly bullish on the long term outlook for equities.

A quick summary of the first quarter of 2013 is that the market went.... (drumroll)…. ***nowhere!*** The two popular stock indices, the Dow and S&P 500 produced returns of –0.7% and +1/3%, respectively for the three months. Those final numbers, however, mask a lot of turmoil that took place under the surface. For example the Dow lost 5.3% in January, gained back 4.0% in February and was nearly unchanged in March. There was also significant variation within industry sectors. An index of consumer discretionary stocks (think retail, restaurants, entertainment, etc.) lost 3.2% during the quarter while the strongest sectors in the quarter were Utilities (+8.5%) and Healthcare (+5.4%). The dominate influence for the markets was *geopolitical* as events from around the world seemed to have more influence than relatively quiet U.S. economic or political news. All-in-all, it was a good quarter as the sideways market and lack of news allowed the market and investors to catch their collective breath after the big gains of 2013.

Best regards,

Your Advisory Team

EGI Financial, Inc.
American Heritage Securities, Inc.

Questions or comments?
Email us at: ahs@egifinancial.com or call 330-535-0881. Visit us at www.EGIFinancial.com