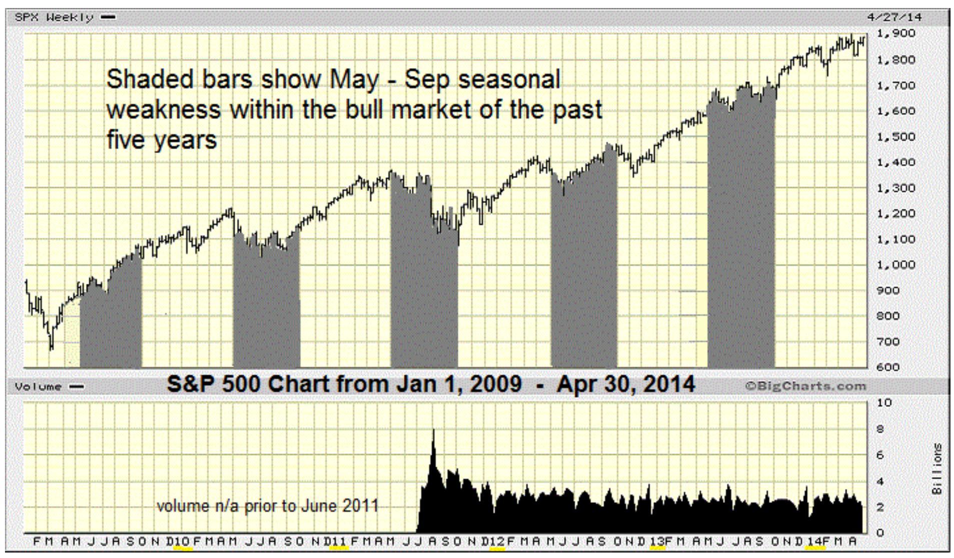
American Heritage Financial

May Update **May 1, 2014**

Sell in May and Go Away…

The Seasonal Adage Gets a Workout: The old stock market adage, *"Sell in May and go away"* is getting even more media coverage than usual this year. The adage refers to the market's tendency to post its least rewarding returns in the middle of the year. Market scholars theorize the pattern could be because fund flows are strongest in the early months of a year, because optimistic forecasts are often adjusted down after the first quarter, or simply due to hot weather and summer vacations.



Whatever the reason, both the line graph here, and the chart of monthly returns below show a pattern of summer weakness.

The line graph covers the five years since the bull market began in 2009. The May to September periods are shaded and illustrate weakness relative to the strength in the unshaded months. The chart below shows seven years of monthly and total returns and shows that there have been more positive summer periods than negative—although 2008 and 2011 had dramatic declines. It should be remembered that 2008 was the depth of the bear market and the difficult year of 2011 was influenced by fiscal cliff, debt ceiling and election concerns.

Monthly & Total Returns May – Sep of 2007 - 2013

	May	June	July	August	Sept	Total
2007	3.50%	-1.70%	-3.10%	1.50%	3.70%	4.36%
2008	1.30%	-8.40%	-0.80%	1.40%	-8.90%	-16.15%
2009	5.60%	0.20%	7.60%	3.60%	3.70%	21.00%
2010	-8.00%	-5.20%	7.00%	-4.50%	8.90%	-3.83%
2011	-1.10%	-1.70%	-2.00%	-5.40%	-7.00%	-17.03%
2012	-6.00%	4.10%	1.40%	2.30%	2.60%	3.33%
2013	2.30%	-1.30%	5.10%	-2.90%	3.10%	5.26%

We find the pattern fascinating and, indeed, nimble traders may find ways to profit from this information. We will admit that such trends might affect a few of our investment decisions on the margin but our long-term (and successful) strategies avoid investing based on calendar trends or timing systems. Instead, we focus on company fundamentals and overall economic conditions to develop long-term portfolios of high quality investments to build diversified portfolios designed to meet specific client needs.

In spite of concerns about the next few months, the overall outlook for a continuation of this bull market remains positive. Company fundamentals are currently very strong and the economy continues to grudgingly improve. The market is not at extremes typical of a bull market top and bull markets do not normally end while the economy remains strong. The Fed expressed its confidence that the economy is still moving in the right direction when they announced the fourth consecutive $10 billion reduction in their bond buying program on the same day that first quarter GDP (growth) was reported at just 0.1%.

Consumer spending and employment trends continue to improve while government spending, a slowdown in housing and weather all depressed first quarter GDP results. Expectations are for an uptick to 3% growth in the second quarter of 2014. In addition to strong conditions in the U.S., the European economy is showing encouraging signs of life.

While the long bull market still has room to run, near term caution is justified for reasons beyond potential summer doldrums. The market has experienced a huge shift since the last days of 2013. The powerful upward momentum that drove 30% returns in 2013 has been replaced by a volatile market that has churned to a year-to-date return of near zero. There has also been a significant shift in market leadership. The high growth, high P/E stocks (mainly technology and biotech) that were fueling the hot money in 2013 took a dramatic turn down about two months ago. Even beyond the hot momentum stocks, growth stocks in general are under-performing relative to value stocks. The shift to value can be seen in the outsized year-to-date returns in stogy old utility stocks in our accompanying chart on index returns. The shift to value should continue based on relative valuations, the maturing economic cycle and the aging bull market cycle. Added to this change in the complexion of the market, we have to consider that there has not been a correction of 10% or more since late 2011. There is no rule that says the market has to correct but common sense points to an eventual pull back.

Index Returns as of 4/30/14

INDEX	Close 4/30/14	% YTD Chg	% 52 Wk Chg
Dow Jones Industrials	16580.84	0.03%	12.8%
Dow Jones Utilities	553.58	12.8%	4.0%
NASDAQ Comp	4114.56	-1.49%	24.7%
S&P 500	1883.95	1.9%	19.0%

Added together, we remain very positive on the equity market over the long term. It is very possible the turbulence we have seen thus far in 2014 will get worse before it gets better so our tactics are more cautious than normal. We see new opportunities emerging in value sectors of the market as well as international markets. We expect to take advantage of the shifting sands to find new ways to help you achieve your financial goals.

Best regards,

Your Advisory Team

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Questions or comments?
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