MV Capital Management Midweek Market Commentary

1527: Hello, Goodbye?

February 13, 2013

Will there be a party? Probably not – 1527 is not the S&P 500's all time high water mark. But it is a significant milestone for longtime market observers because it was the peak achieved during the technology bubble; to be specific, the closing price of March 24, 2000. Putting that milestone behind us for once and for all would at least merit a glass of Veuve Clicquot, if perhaps not a truckload of cases of that fine *eau de Champagne*. It is most likely only a matter of time until we reach it, with today's (2/13) intraday high breaching 1524 before settling back to close just above 1520. But it could be awhile before we wave goodbye forever.

Animal Spirits or Defensive Crouch?

Of course the S&P 500 is only one index, and it doesn't move in a vacuum. As this broad US equities benchmark has rallied since the beginning of the year how have other asset classes fared? Relative movement patterns between a blue chip index like the S&P 500 and other benchmarks can act as a sort of sentiment gauge. Strong relative gains by asset classes like small caps or emerging markets can act as a market sentiment gauge. When exposures like small caps or emerging markets perform relatively better than the blue chips it can signify an uptick in animal spirits – a willingness to push out the risk frontier. Conversely, when a defensive sector like utilities outperforms it can imply a more cautious, defensive sentiment.

With that in mind what does the data tell us today? Well, something of a mixed bag actually. The Russell 2000, a popular small cap benchmark, has outpaced the S&P 500 by a bit more than 1% since the start of the year, though in the last couple weeks sentiment has been slightly more in favor of the blue chips. On the other hand the MSCI Emerging Markets index has substantially underperformed the S&P 500 over the same period, and is barely in positive territory for the year to date. Developed non-US indexes like the MSCI Euro and MSCI Pacific ex Japan are likewise lagging the S&P 500. Meanwhile the Dow Jones Utility Average, a traditional defensive haven, underperformed the S&P 500 during the torrid January rally but has since been steadily gaining ground in relative terms.

All of which is to say that there is not a compelling case to make for animal spirits run rampant, nor is there solid evidence of an imminent defensive crouch. None of which is unusual when a major market index like the S&P 500 hovers around a macro trend barrier. The high frequency trading platforms that dominate day-to-day volume are programmed to advance and hedge, advance and hedge, not unlike a tactic one might encounter in Carl von Clausewitz's timeless military strategy classic *On War*. Directional allocation calls (e.g. on small caps or utilities) are tough to execute when the ground is constantly shifting underfoot. A better approach may be to stay nimble, with one foot further out the risk frontier and one foot closer in, until a yet to be known catalyst moves things more decisively in one direction or the other.

Masood Vojdani
President

Katrina Lamb
Senior Investment Analyst

MVCM 2013 0012
DOFU: February 2013

Investment Advisory Services offered through MV Capital Management, Inc., a Registered Investment Advisor. MV Financial Group, Inc. and MV Capital Management, Inc. are independently owned and operated.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by MV Capital Management, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from MV Capital Management, Inc. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. MV Capital Management, Inc. is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the MV Capital Management, Inc.'s current written disclosure statement discussing our advisory services and fees is available for review upon request.

MVCM 2013 0012
DOFU: February 2013