Exencial Wealth Advisors™

Market Update
October 2014
By: Tim Courtney

After a relatively calm second quarter, markets around the world changed course in the third quarter, resulting in increased volatility and a divergence in asset class performance. The summer months were filled with headlines, including the rise of ISIS, a decrease in global interest rates and concerns about a global ebola outbreak.

Overall, the major indices have been [flat in the third quarter of 2014] - with the Dow and S&P 500 just 1 percent higher than their Q2 watermarks. We've experienced much more volatility compared to the second quarter; the Chicago Board Options Exchange Market Volatility Index (VIX) is up [21 percent in the third quarter].

The chart below features the [third quarter index activity] below:

Source: Google Finance

Though the indexes have realized modest gains, small cap and emerging markets stocks have not fared quite as well. Over this same time period, the Russell 2000 is [down just under 8 percent] and the MSCI Emerging Markets Index is [down 3.5 percent].

Even though emerging markets, international small caps and U.S. small caps have approached technical correction levels, defined as a decline of 10 percent, these kinds of swings are not abnormal and we think these asset classes appear attractive based on current valuation.

In our view, the recent corrections present a buying opportunity to put new cash into the market. We still feel that as long as rates remain low, equities remain the most attractive asset class and provide reasonable valuations.

10-Year Treasuries are sitting at [2.32 percent], just a few basis points off of one-year lows, and the S&P 500 earnings yield is at [5.17 percent]. It's clear that global rates are continuing to put downward pressure on U.S.

5000 Legacy Drive, STE 180
Plano, TX 75206
P 888-741-5508
P 888-985-7162

187-B Boston Post Road
P. O. Box 623
Old Lyme, CT 06371
P 888.434.5999

9108 N. Kelley Avenue
Oklahoma City, OK 73131
P 888.478.1971

ExencialWealth.com

Treasuries.

The domestic economy continues to improve, albeit at a pace slower than historical averages. On Sept. 26, the Bureau of Economic Analysis released a revision of 4.6 percent to the U.S. second quarter GDP number – that's 40 basis points higher than previously estimated and the fastest rate of expansion in almost three years. We take this drastic swing from a negative 2.1 percent Q1 GDP number as a positive sign for third quarter and full year projections.

According to the Fed's Open Market Committee, its quantitative easing program is set to end this month. We will be paying close attention to its comments on interest rate policy going forward; however, we feel future interest rate increases are already priced in and will have muted impact on markets.

Sources:

1. Reuters: Wall St. ends down for day, month; indexes gain in quarter
2. CBOE: CBOE Futures Exchange Reports September 2014 Trading Volume
3. Google Finance
4. Morningstar
5. MSCI
6. Bloomberg
7. http://www.multpl.com/s-p-500-earnings-yield
8. Bureau of Economic Analysis
9. Fed will end QE next month, 'considerable time' remains