**Lindisfarne Investments, LLC**
**An island of safety in a sea of risk**

# Market Update
## January 31, 2014

January has always been a perplexing month in the market, followed only by February, March, April, etc. There are many cross-currents flowing during January that lead people to believe that it is a good indication of what-is-to-come for the remainder of the year. This has lead to two different barometers of January's action that some people place a lot of faith in and use to guide their investments for the rest of the year, similar to the "sell in May and go away" concept. These January Barometers are:

1. The market's performance during the first 5 days of January predicts if the market will be up or down for the rest of the year.
2. The market's performance during the month of January predicts if the market will be up or down for the rest of the year.

Both of these imply that a gain (loss) during the first five days (month) of January predicts the market's gain (loss) for the remainder of the year. Whenever possible, it is always good to look at the actual history of the market rather than taking any "pearl of wisdom" at face value.

If you would look at the market returns of the S&P 500 for the years from 1950 to 2013, the statistics show that the return for the first 5 days of January explain only 7% of the variation in return for the remainder of the year. Other factors account for 93% of the variation of return.  The data does show that the first half of the above time period showed a stronger 5 day effect, but it has now all but vanished.

Looking at the performance of the month-of-January-effect over the same time period, we see a similar result. The month of January currently explains less than 1% of the return variation over the rest of the year.

**Conclusion:   Do despair that January lost 0.6% during the first 5 days and 3.6% for the month.**

What do we do instead of relying on such market "truisms" as either of the January Barometers? We look to the price charts of market action to tell us what is going on.

First, an intermediate term chart that goes back to the early part of 2012 shows us that the uptrend that was in effect throughout 2013 is still intact (sloping green line). This trendline has not even been touched in January. If this trendline is broken (the price drops below the line), the downside danger to the market will increase. Also, notice that there is a horizontal support line (green) that was formed by connecting October's high, December's low and January's low. This tells us that we are still comfortably above significant short term support for the market. Just like the trendline, this needs to be broken to signal an increased likelihood that the market will go down. Until then, the market may bump around a bit, but **there is no cause for major alarm**. **We are still within the parameters of a minor market pullback.**

## S&P 500 Daily Chart

Looking at the 30 minute intraday action of the market over the last several weeks on the next chart, we can see in greater detail how the market has bounced 4 times off the October/December/January support line (green) at the 1772 price level. It also has formed a resistance line (red) at the 1800 price level. The market needs to break out of this trading range to give us a first indication of the near term movement we should expect. A breakout above 1800 will point to further upside action while a drop below 1772 should show further downward action.

# S&P 500 30 Minute Chart


It has been interesting watching the market gyrations this last week. As you know, it is earnings season. This is where most companies report their 4th quarter earnings and total year results. Just as importantly, most give “guidance” as to what they see happening to their company over the next quarter and the next year. Throughout the week, a couple of good reports from major companies sent the market climbing to the 1800 resistance level where it would stall. Then, the next day, the reports would not be as good as expected and the market would drop to the 1772 support level.

We should be through with earnings reports in the next two weeks. Until then, it may be that the market keeps its true direction hidden “behind the curtain”.

There always remains the possibility of further Washington, D.C. gridlock over the debt ceiling, trouble at the Olympic Games in Russia or an increase in unrest in the Ukraine or the Middle East. But these are just the current unpredictables, some of which are always there in the world. If anything happens, the best way to fathom how dire the situation is to look at how the market reacts. A mild or non-existent reaction will show that the market “feels” the situation will be contained without major damage. But, if the reaction is violent, then it will be time to seek the protection of money markets.

And that is what we do at Lindisfarne Investments. **So far, the January pullback has only had a minor effect of our portfolios.** But we monitor the market every day. We look for a signal that tells us to sell some of our investments and move the money to cash or to find a better performer that is within our risk levels. That is the time to make a move in the market. But that time is not yet here.

Overall, we need to remember the U.S. economy is recovering, albeit slowly. And we are in much better shape than the most of the world. It may not be perfect, but it is still the best, safest place for the world to invest their monies.

Please feel free to pass this update on to anyone that you think might be interested in it. If they wish to be on the mailing list or would like more information about the services of Lindisfarne Investments, we can be contacted by phone at (440) 623-0775 or by email at bill@lindisfarneinvestments.com .