



Lindisfarne Investments, LLC

An island of safety in a sea of risk

Market Update

March 28, 2014

Jordan

As I mentioned last time, I took a road trip to the country of Jordan to attend the wedding of my youngest son, Matthew, to a lovely woman, Nada, from Jordan. They met when he was stationed at the embassy in Amman last year. It was a beautiful experience. I loved meeting my new family-in-law and visiting the country. Several friends asked if I was afraid to visit the Middle East, given all the problems that we hear about every day. The answer is No! I felt totally safe, enjoyed the people, and marveled at the historic sites we visited.

The first place we visited was some old Roman ruins about an hour north of the capital city of Amman. The Roman Empire had a huge base in the town of Jerash. You can walk for several kilometers through the ruins. I was amazed at the size of the base and could not get over the huge construction project that created the original. And archeological studies have discovered evidence of human occupation in the area dating back over 6,500 years.

Roman Ruins at Jerash



The next day, we visited Mount Nebo. This is the vantage point where Moses was shown the Promised Land after the years of wandering in the desert. The only problem for Moses was that he was told he could finally see the Promised Land, but would never set foot there. Across the valley, you are looking at Israel. On the left side of the picture is a sign that points out the direction and distance to various Israeli cities. Ranging from 25 to 106 kilometers away, you need a very clear day to see the most of them.

Moses' View of The Promised Land From Mt. Nebo



We also spent some time at the Dead Sea. It is now about 28% salt compared to the ocean which is about 3% salt. Anyone can float in its “waters”. In fact, if you lean back in the water, it takes over and you float to the surface. You cannot stop the Dead Sea being in charge of your body.

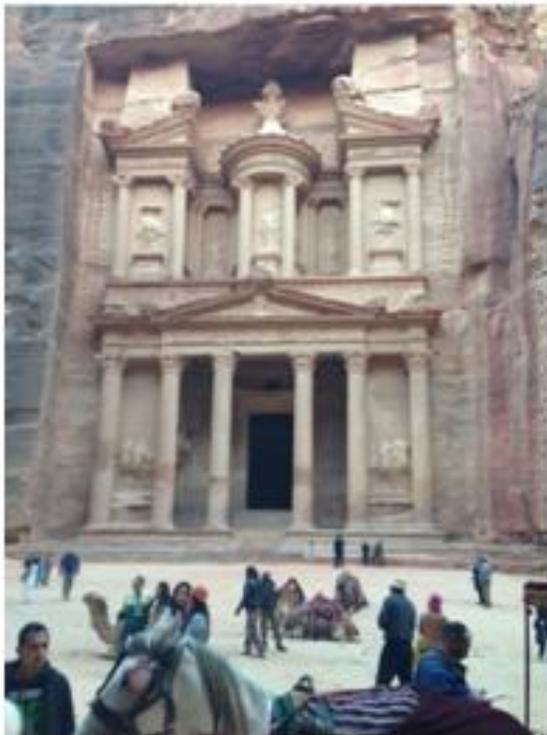
The Dead Sea



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Finally, we visited Petra which was built around 300 BCE. Most people's exposure to Petra came via the Indiana Jones movie where they searched for the Holy Grail. It is located in the south of Jordan in a very rugged, mountainous area. The Treasury, show below, was carved in the side of the rock face. However, this was only one of many "buildings" at Petra, all constructed in the same manner. In fact, there were on the order of 1,000 caves like this that were all inhabitable.

Probably the toughest part was when we took the 800 what-they-call-steps up the side of the mountain to visit the Monastery and sacrificial area of Petra. Again, another enormous construction project that took many years of labor, especially considering the tools that existed at that time.



The
Treasury at
Petra

The main attraction, though, was the wedding ceremony which was conducted in two parts. The first evening, the official marriage took place in Nada's parents' condo. It was a simple ceremony that basically involved the review of all the paperwork to see if all was in order, followed by a signing of the marriage agreement. One interesting feature of the marriage agreement is that it also contains the terms of the divorce, if it would ever come to that. Now there is a feature that would simplify many lives in the U.S., but put a lot of attorneys out of business.

The reception was several days later, held at one of the newer hotels in Amman. With 200 or so guests, a huge buffet dinner and a desert table longer than a basketball court, it was very reminiscent of a typical U.S. reception. One difference is that the dinner was held near the end of the reception. As I was told "Most everyone leaves after the meal, so it is held last".

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The Market

Turning from the special events of if, we see that the market is still safely above its uptrend line that started in December of 2012. There are, however, an increasing number of analysts that are calling for a 20% or more pullback. The market is up a mere 0.5% since December 31, 2013. We are only 3.7% above the year-long trendline. A 20% pullback would drop the S&P 500 to around 1500 (see the chart below).

Amid many hints that the U.S. economy is slowing, to date, the market appears to be using the harsh winter weather as an excuse for lack of market performance. But the market can only fool itself for so long. The jobs report which comes out at 8:30 am this Friday is expected to show 200,000 jobs created in March. If the actual number is much less, this could be the trigger that starts the market lower.

S&P 500 Pullbacks



Meantime, we have had seven pullbacks of greater than 2% in the market over the last 15 months. Each time we pullback, it relieves some of the selling pressure on the market. If the trendline does not hold, then we can expect a much larger decline the next time around.

Currently, we are near the bottom of a 25 day trading range that goes between 1839 and 1883 on the S&P. We are definitely on hold, waiting for the economy to give us reassurance that it continues to grow. If not, a lot of the expectation that is built into the market will be unwound and a new, lower equilibrium will be found.

S&P 500 Daily Chart



On the positive side, a jobs creation report 200,000 or more for March and a market breakout above the 1883 level will give supporting evidence that the economic recovery is on track.

We need to keep in mind that we are in a transition period in the U.S. economy. Yes, there continues to be geopolitical risk. There always is. But we are in the middle of the Federal Reserve tapering of its aggressive infusion of money into the banking system. What will be the effects of the “junkie” going through withdrawal from its elixir? No one knows how well the economy will do without these funds. And once the tapering is over, we face another brave new world ... life without “monetary drugs”. I fully expect an uncertain period in the market with times of great optimism intermixed with fear and downside volatility. We may be in for a tremendous roller coaster ride over the next year.

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.

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