Lindisfarne Investments, LLC

An island of safety in a sea of risk

Market Update
April 19, 2013

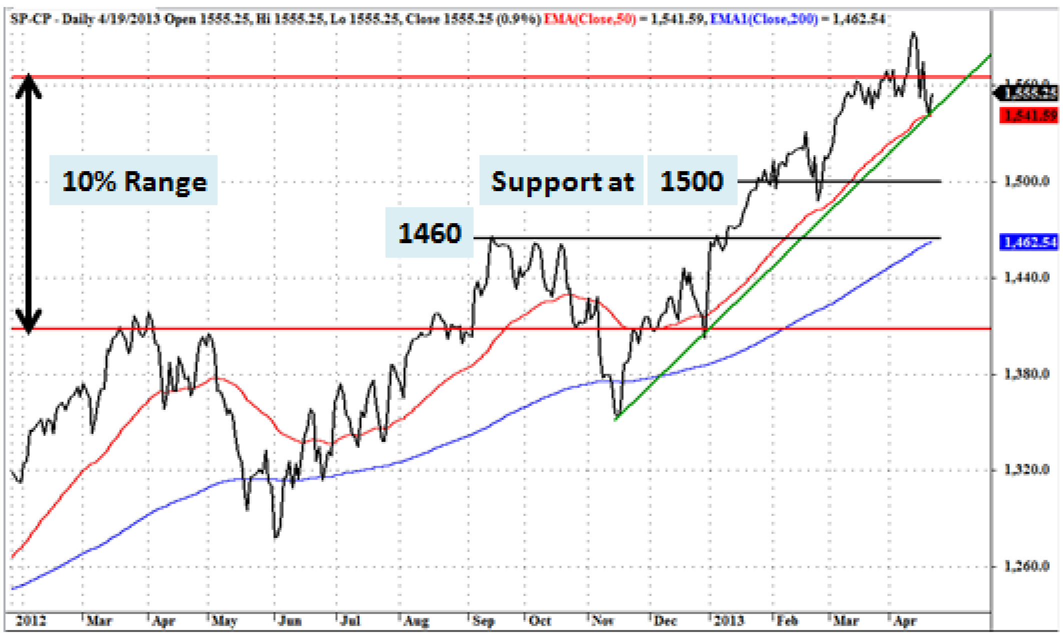
Even though the market had one of its worst weeks of the year (down 2.1%), I continue to be impressed that it doesn't seem to want to go down in a significant way. It keeps bouncing back from each pullback. Let's look the charts to see if we can glean some intelligence from this week's events.

First, in the long term we have broken out above the "double top" formed in 2000 and 2007 but have pulled slightly back below the 2007 all time high. As you can see on the first chart, the market spent about 260 days on average in a 10% range of its high points. So far, we have spent 167 days in that 10% range. If we accept that the future will be range bound and that that history repeats itself, we could spend another 90-100 days bound in this area.

S&P 500: 15 Year Chart

Looking at an intermediate trend chart of the last 15 months, we can pick out points of support if the market decides to go down from here. The market is at support now. If it drops from here, the next support is at the 1500 area where we spent one month in the February time period. If that doesn't hold, we look to the 1460-1465 area. This roughly coincides with the 200 day moving average which is another support indicator. Failing that, 1400 to 1410 is the next support which also marks the bottom of the 10% range we used earlier.

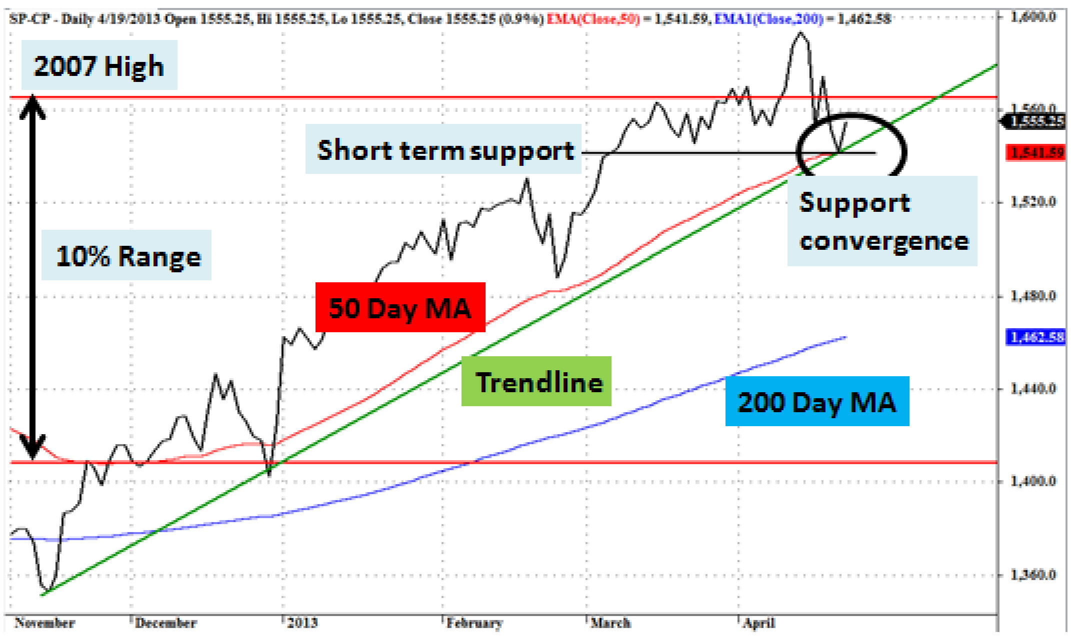
S&P 500: 15+ Months



Looking at the shorter term below, we can see the early April breakout above the 2007 high by about 2%. Then we pulled back to the short term support line before bouncing on Friday. We are right now at a convergence of support. These include the recent low, the 50 day moving average and the trendline that was formed by the market lows that occurred since last November.

Some of this recent down move had to do with the uncertainty of the Boston bombings and the relief at their conclusion. However, there are other factors at play, namely we are also in the first quarter earnings season where the market is usually volatile, making moves up and down based upon the performance of the most recent reporting companies.

S&P 500: 5+ Months



And earnings will remain in focus. As earnings are announced, the market will most likely continue its roller coaster ride driven by each good and bad result. Next week, 170 of the S&P 500 companies and 10 of the Dow Jones 30 companies will report their earnings for the first quarter. These will include Apple, Caterpillar and Exxon. So far, 20% of the S&P 500 companies have reported with 2/3rds beating their expected earnings. The rub is that 57% of those reporting have missed their sales forecasts. Higher earnings on fewer sales equals cost cutting and economic slowing.

And it seems that even the slightest hint of trouble can punish a company's stock. For example, GE increased their first quarter income by 16% on flat revenue and reconfirmed their forecast for the full year and yet the stock fell by over 4%. The cited reason: economic weakness in Europe hurt their results.

Other factors that could influence the market next week include the economic announcements due out this coming week:

Monday:	Existing home sales
Tuesday:	New home sales
Wednesday:	Durable goods orders, crude oil inventories
Thursday:	Unemployment claims
Friday:	First look at Q1 GDP

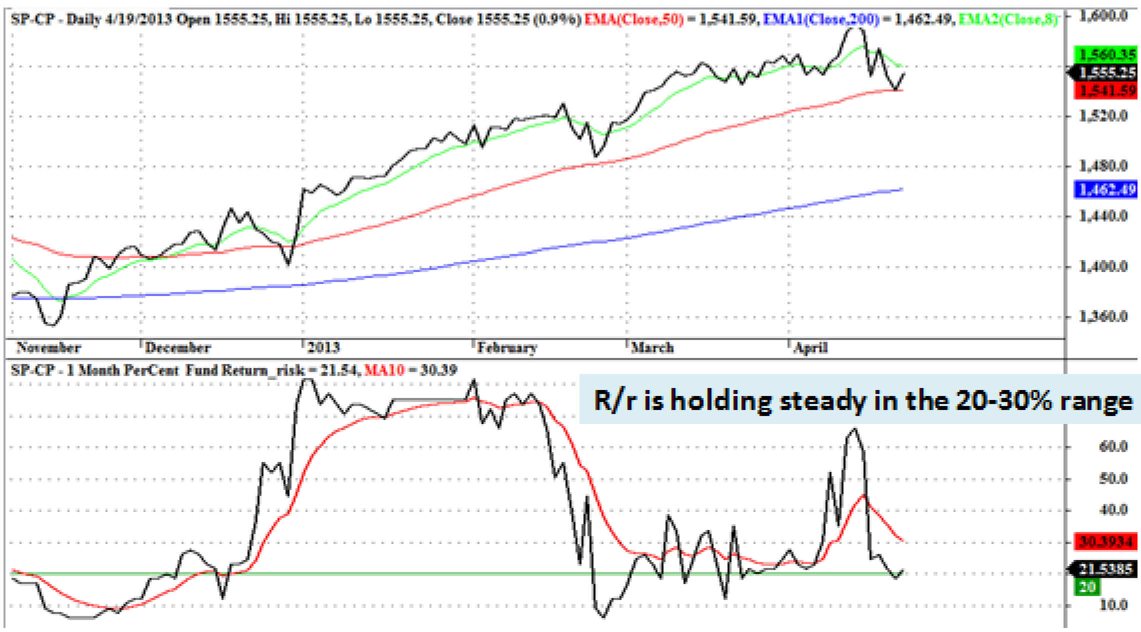
Gold is believed by some to be the "long term store of value" and the only real currency. It dropped 13% in two days before recovering 3%. Silver also dropped. You may have heard talk of a longer term rotation out of commodities, so I pulled together the next table to see the bigger picture. As you can see, basic commodities have been falling for the last two years with many showing a relatively larger drop this year. We can blame this on a number of factors, including the global economic slowdown. But it does point out that commodities are in a deflationary period where things are cheaper tomorrow than they are today. This drop in commodity prices suggests that inflation will remain tame at least for the near term future.

Price Change YTD (based upon ETFs)

Sector	YTD Change %	2 Year Change %
Gold	-16.4	-26.6
Silver	-23.7	-52.6
Steel	-17.0	-35.0
Copper	-14.8	-44.6
Aluminum	-13.0	-42.7
Oil	- 6.0	-31.7
Natural Gas	- 0.3	-33.0

We usually look at the market's strength by seeing how many sectors of the market are performing well with respect to the risk they are exhibiting. The chart below shows that 20 to 40% of the sectors are showing an acceptable Reward to risk profile. This is in the lower range of acceptable since history has shown that a value below 20% occurs when the market is not healthy and is best approached with extreme caution. When we are in the sub-20% area, new positions are established with caution and usually in smaller size.

31 Day R/r



The next two tables give us a list of the sectors that have the best Return to risk profiles and the sectors that have the best gains over the last 31 days. 31 days is the point at which the market entered the current short term sideways price pattern. Once again, just like most of last year, bonds dominate the Reward to risk list. The best gaining sectors have several Pacific Rim focused sectors and a disparate group of other sectors, each with their own individualized stories.

Short Name	R/r
BankLoans	2.92
BondMixed	2.76
BondStTrm	2.60
BondHiYld	2.39
FloatRate	2.26
BondCorp	1.61
BondIntmd	1.44
Japan	1.41
Health	1.39
REIT	1.24
BondZeroCp	1.24
Utility	1.21
Asia	1.18
BondLgTrm	1.06

Sectors with 31 day R/r > 1.0

Short Name	31 day ROC
Inverse	13.16
Japan	9.93
Asia	6.55
Health	6.50
REIT	4.84
Utility	4.07
Pacific-Jap	3.83
BondZeroCp	3.46
Altern	3.04
Consm	2.61
Quant	2.58
Telecom	2.10
SingleCtry	1.99
Income	1.30
Financ	1.17

Sectors with Highest 31 day Momentum

Next week could determine the next intermediate term trend. Do we break out to new highs (above 1594 on the S&P 500), break down through the support convergence or continue to move sideways. This is type of market where we closely watch the stops that we have on our individual holdings. If they are hit, we will move that money to a safer sector including but not limited to money markets. This is the time where active monitoring and management of our holdings pays off. This is what we do….

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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