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

Market Update
September 13, 2013

If anything, the market's activities this past month have been the type that can try one's patience. The market retreated to its intermediate term trendline, but then bounced and is approaching its all time highs.

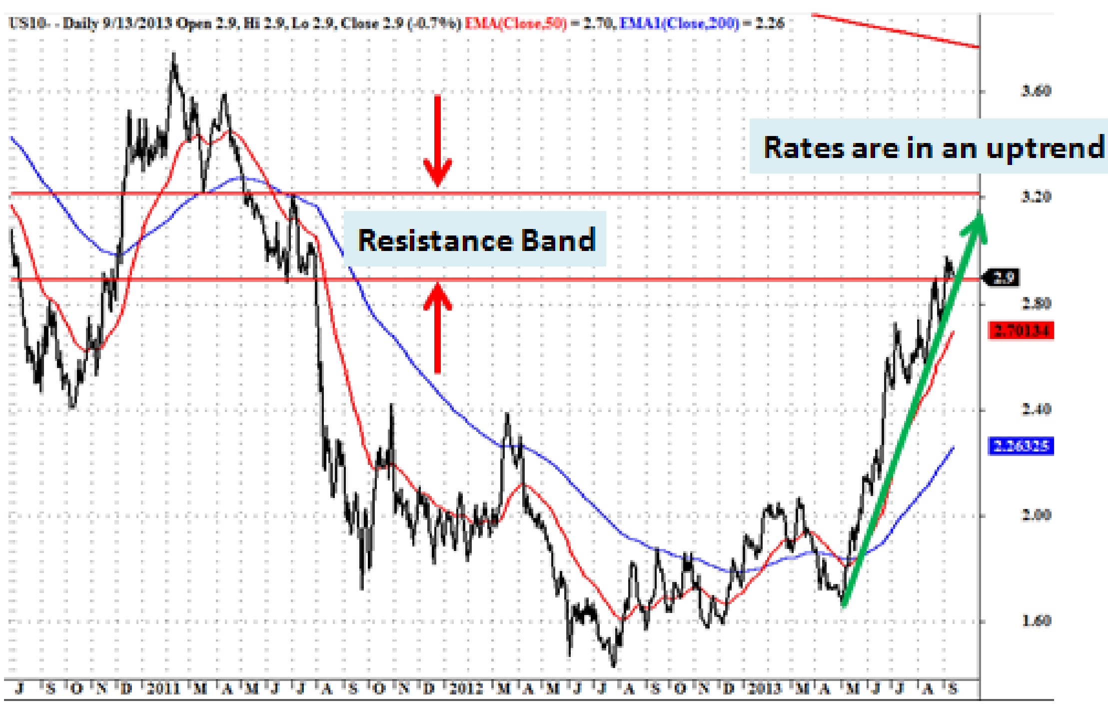
Looking at the chart below, the overall read is a bullish one. First, long term, the market remains comfortably above the trendline started in 2009. Having bounced of the intermediate term trendline which started in November of 2012, it is also above it. And short term, the current advance started at the end of August. The market is also above its 50 and 200 day moving averages.

The chart also shows Monday's action as of 10:30 in green. The intra-day high reached 1703 versus the all time high of 1710. As the chart shows, if we can break above the 1710, then there is no further overhead resistance and we should expect another advance. However, if the market should retreat below the 1568 area, then we could expect an 8 to 10% drop to the long term trendline near 1440.

What caused the surge we are seeing today? In case you haven't heard, reason #1 is that Larry Summers has removed his name from consideration for the Chairmanship of the Federal Reserve. Even though he was an Obama favorite, there was an enormous behind the scene campaign to make sure he didn't get the job. Janet Yellen is now the odds on favorite to get the job. She is expected to continue the policies that the Fed has followed over the last several years. And the market likes continuity.

The next chart shows the yield on the 10 year Treasury note. We are still in a multi-decade decline in yields and have currently risen to a significant resistance area. While the yield closed at 2.9% on Friday, the Summers announcement has driven the yield down to 2.8% (back below the bottom of the resistance band) so far today. The bond market likes Yellen!

10 Year Treasury Yield
Short Term



The second reason for the advance is the announcement of an agreement about removing the chemical weapons from Syria. This is a step back from the brink of what could have become another Middle East war where the US was involved.

The Fed meets on Wednesday and is expected to begin the tapering of the QE III program. I find it interesting that the "slow and easy" approach to easing that we suggested back at the beginning of August is now being mentioned by all the commentators in the news. This is baked into the market, so unless there is a major surprise, Wednesday's Fed announcement should be a non-event.

Meantime, keep an eye on the market levels, a move above 1710 takes us into a lower risk region while a move below 1568 signals trouble ahead.

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 .