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# April Volatility to Bring May Calm?

**April Market Review From Your Portfolio Management Team—May 16, 2014**

Most of us can now say with some degree of certainty that winter is finally over, and with April showers, come May flowers. At least, that is our hope for everyone. But as many of us endured a blast of winter as late as mid-April, we were reminded that winter doesn't always leave without a fight.

In April, we were also reminded that the volatility we saw early in the year hadn't left us. The stock market started the month off with two strong days, but from there, the S&P 500 Index fell almost 4% by mid-April, as if in league with winter's cruel joke. A rally then ensued, leaving stocks up slightly for the month. Judging by this ending number, you'd barely know there had been any kind of a swing. While the S&P index managed a positive return, it was a more challenging month for Nasdaq stocks and small-cap stocks, as previous high flying momentum stocks continued to get pummeled.

To get an idea how we are managing through this new choppy era, let's take a look at the types of funds we own in the various strategies:

**Stock Funds:** While we own some general market-oriented funds, we have tended to focus on two areas: dividend-oriented funds (in our more conservative strategies) and sector funds (in our more aggressive strategies). The largest single position we hold at FSA is T. Rowe Price Capital Appreciation (PRWCX). It is a fairly conservative fund that tends to do a good job generating returns even if the overall stock market is struggling, as it has this year.

**Bond Funds:** Bond funds have generally fared quite well this year, as the fear of spiking interest rates has not yet occurred. Our bond allocations are predominantly in two areas: high yield bonds and intermediate-term high quality bonds. Our two largest bond holdings are Loomis Sayles Bond (LSBRX) and Dodge & Cox Income (DODIX). Loomis Sayles is a multi-sector bond fund that will venture overseas, in addition to its high yield allocation. Dodge & Cox Income has been held at FSA since 2008 in some accounts and is a diversified high quality bond fund.

The strength in bonds so far this year has surprised many investors who believed interest rates would be moving higher, rather than down, as they have since the start of the year. The turmoil in Ukraine has explained some of this move, with the "flight to safety" trade. The yield on the 10-year Treasury note is often touted as a barometer for stocks with low levels in yield signaling trouble ahead for equities. The old saying is that if you want to know where stocks are headed, look to the bond market. But sometimes there is a disconnect between how bonds say stocks should behave and how stocks actually are behaving. Such a disconnect can prompt stock market participants to remain on the sidelines, hesitant to venture further, with the bond market raising a caution flag on equities. We're seeing some of this now.

In last month's Market Update, *Taking a Rest at the Next Landing*, we spoke of the stock market hitting a "landing" or stalling-out period. With the disconnect between the bond and stock markets causing uneasiness, we're likely to remain in this stalling-out period until earnings or economic data, Fed action or some combination thereof pushes equities in one direction or another.

Whatever May brings us, calm markets or more volatility, we hope it also brings a good dose of warm, spring weather.

FSA Investment Team