The 2014
S&P Outlook

With the Top Ten

2014 Road Signs

Wayne Whaley

Witter & Lester Inc.

wayne@witterlester.com

January 20, 2014

The 2014 Outlook Overview

In this paper, I have listed what I perceive to be, the top ten quantitative road signs provided thus far, for guidance in negotiating one's way through the impending 2014 S&P roadway. The bulk of the evidence lines up on the bullish side of the ledger and supports another positive year, but in my opinion, more likely of the more orthodox single digit variety.

The perpetual Bulls would argue, we have the potential for another 1990's style equity bubble on the back of unprecedented Federal Reserve stimuli, a 'QE Bubble' if you will, and history has taught us repeatedly, it does not pay to position one's self contrary to the intentions of the Federal Reserve, a point not lost upon the author of this Outlook.

The Bears will note the S&P has experienced back to back double digit S&P calendar years, concluding with a 29.6% advance in 2013, and three consecutive positive double digit years are rare birds (Road Sign 2). The Bears also argue we are due for an attitude adjustment as Sentiment polls reflect the highest bullish sentiment levels since 2007, which shouldn't come as a surprise, since you don't post back to back double digit years unless a lot of Bears are going through a conversion process. We are also in the midst of a down January and although positive years can certainly be posted after down January's, it does reduce the odds observably (Road Sign 5).

At 838 calendar days (As of Jan19), the S&P is currently in the midst of the 7th longest post 1950 advance without a 10% correction (Road Sign 4), but my estimate is, the correction will come down the road a bit, for many reasons discussed in this paper, but imminent in my work is the fact that:

I define my personal 'Sell in May' time frame as May5-Oct27, a period in which the S&P has historically broken even, on average. The 2013 'Sell in May' came in at 9%. Since 1950, if the S&P had enough strength to post at least a 5% 'Sell in May' (May5-Oct27), the following February-Aprils are 17-1 for an average/medium gain of 4.87/3.57% (Road Sign 7).

The 2015 road will likely be a bit bumpier than the last couple of years, but there are simply few other viable alternatives to equities for the vast majority of investors, at this time.

Some of these variables play on my mindset more than others, but below are the top ten factors currently weighing on my 2014 outlook. They are listed, not in order of significance, but in ascending order of bullishness, with a two page summary at the finish line.

1. Excessive Bullish Sentiment

The contrarian concept is based upon, not necessarily always trying to reside in the minority but avoiding being a member of the herd at the 3 standard deviation levels, upon which time, the available money supply tends to become precariously unbalanced in favor of the minority. An issue I have with many a sentiment indicator lies in the fact that although most market tops are accompanied by excessive bullish sentiment, excessive bullish sentiment doesn't necessarily accompany market tops, as evidenced by the last six months. But, I respect the fact that academic studies do support a correlation between responsibly performed sentiment polls and the future prospects for equities. There are a plethora of equity sentiment polls in existence and it doesn't really matter which poll you currently gravitate toward; Smart Money, Dumb Money, Individual, Institutional, Insider or Out, at least 75% of every market groupings is now on record as being firmly in the Equity Fan Club, in line with measures not seen since 2007. I personally lean toward the polls which are more a reflection of what people are actually doing with their money, as opposed to how they respond to a questionnaire, and one of my favorites is one you may have heard of, as it has been around awhile, referred to as the 'Percent Change in Equity Prices', as the purchasers of stock have historically been known to be of a bullish disposition. That poll suggest the Bullish Camp is a bit crowded as the S&P has posted back to back positive double digit years for a two year advance of 47%. Given that sentiment measures and price moves reside simultaneously in the 3 standard deviation neighborhood, a shakeout of the Bulls seems almost inevitable, at least from this particular tea leaves perspective.

2. The Three Year S&P Pattern

In line, with the overextended market thesis, the S&P has had three, consecutive, expanding, non negative years, 0.00, 13.41 and 29.60%. There have only been three other occasions since 1950, when this occurred and in all three of those occasions, the S&P was down in year four. Only three data points, but worth noting, given 75% of S&P years are positive.

Three Consecutive Years of Expanding Positive S&P Returns.

#	Year	%Chg	Year	%Chg	Year	%Chg	Year	%Chg
1	1970	00.10	1978	01.06	1987	02.03	2011	00.00
2	1971	10.79	1979	12.31	1988	12.40	2012	13.41
3	1972	15.63	1980	25.77	1989	27.25	2013	29.60
4	1973	-17.37	1981	-9.73	1990	-6.56	2014	?

2013 was the second biggest annual gain since 1950 which did not occur after a negative year, that is, five of the last six +29.6% gains were reversals of oversold or down years.

3. The 2014 Middle Election Year

If the D.C. forces that be, have any nasty work they need to get behind them before gearing up for reelection, Middle Election years have historically served as a pretty good spot for taking a shot at it.

1. **The S&P is 12-9 in the last 21 Mid Election years for an avg/med return of 4.51/1.06, substantially below the avg/med returns of 7.33/10.52 in all post 1930 years.**

2. **'Sell in May and Go Away' has played prominently in MidElection Years, as all four months with net average losses occurred between May and September. The S&P was 9-12 from April 13 through Sept 14 of Mid Election Years for an avg/med loss of 3.79/6.36%.**

3. **The Fourth Quarters leading into the bullish Pre Election Years have fared well. The S&P was 18-3 in Mid Election year fourth quarters for an avg/med gain of 6.48/7.90%.**

Monthly Breakdown for Mid Election Years

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1930	7.6	2.2	8.0	-1.0	-1.6	-16.5	3.7	0.8	-13.0	-8.9	-2.2	-7.4
1934	10.6	-3.7	-0.1	-2.7	-8.1	2.1	-11.5	5.4	-0.5	-3.2	8.3	-0.4
1938	1.3	6.1	-25.0	14.1	-4.4	24.7	7.3	-2.7	1.5	7.6	-3.3	3.8
1942	1.4	-2.5	-6.8	-4.4	6.4	1.8	3.1	0.7	2.7	6.4	-1.4	5.2
1946	7.0	-6.9	4.6	3.8	2.2	-3.9	-2.6	-7.3	-10.2	-0.8	-1.1	4.3
1950	1.7	1.0	0.4	3.9	4.6	-5.8	0.8	3.3	5.6	0.4	-0.1	4.7
1954	5.1	0.3	3.0	4.9	3.3	0.1	5.7	-3.4	8.3	-1.9	8.1	5.1
1958	4.3	-2.1	3.1	3.2	1.5	2.6	4.3	1.2	4.8	2.5	2.2	5.2
1962	-3.8	1.6	-0.6	-6.2	-8.6	-8.2	6.4	1.5	-4.8	0.4	10.2	1.3
1966	0.5	-1.8	-2.2	2.1	-5.4	-1.6	-1.3	-7.8	-0.7	4.8	0.3	-0.1
1970	-7.6	5.3	0.1	-9.0	-6.1	-5.0	7.3	4.4	3.4	-1.2	4.7	5.7
1974	-1.0	-0.4	-2.3	-3.9	-3.4	-1.5	-7.8	-9.0	-11.9	16.3	-5.3	-2.0
1978	-6.2	-2.5	2.5	8.5	0.4	-1.8	5.4	2.6	-0.7	-9.2	1.7	1.5
1982	-1.8	-6.1	-1.0	4.0	-3.9	-2.0	-2.3	11.6	0.8	11.0	3.6	1.5
1986	0.2	7.1	5.3	-1.4	5.0	1.4	-5.9	7.1	-8.5	5.5	2.1	-2.8
1990	-6.9	0.9	2.4	-2.7	9.2	-0.9	-0.5	-9.4	-5.1	-0.7	6.0	2.5
1994	3.3	-3.0	-4.6	1.2	1.2	-2.7	3.1	3.8	-2.7	2.1	-4.0	1.2
1998	1.0	7.0	5.0	0.9	-1.9	3.9	-1.2	-14.6	6.2	8.0	5.9	5.6
2002	-1.6	-2.1	3.7	-6.1	-0.9	-7.2	-7.9	0.5	-11.0	8.6	5.7	-6.0
2006	2.6	0.0	1.1	1.2	-3.1	0.0	0.5	2.1	2.5	3.2	1.6	1.3
2010	-3.7	2.9	5.9	1.5	-8.2	-5.4	6.9	-4.7	8.8	3.7	-0.2	6.5
#UP-DN=	13-8	11-10	13- 8	12- 9	9-12	8-13	12- 9	13- 8	10-11	14- 7	13- 8	15- 6
AVG % =	0.67	0.16	0.12	0.56	-1.04	-1.23	0.65	-0.67	-1.18	2.61	2.04	1.74
MED % =	1.02	0.05	1.11	1.16	-1.65	-1.61	0.85	0.75	-0.55	2.54	1.66	1.52

The Bulls point out, they broke the mold when they made the current administration and there is little evidence they operate in the same cyclical fashion as their predecessors.

4. 832 Days Without a Ten Percent Correction

(Written on Jan 13, 2014)

Given that we have now been over two years without an S&P pullback of 10%, I thought it prudent to:

1) See where the current advance stacks up historically with similar past moves, and

2) What could be garnered in terms of prospects for the future, given such.

I have the last 10% selloff putting in a bottom on October 03 of 2011, which would put the current advance (as of January 13, 2013) at two years, three months and ten days without a 10% correction. The longest post 1950 period, absent a 10% correction, occurred during the dot.com bubble expansion of the 1990s, as the S&P went seven years without a double digit pullback from 1990 to 1997. This was about the same time the dividend yield went under 3%, the PE went over 20, Greenspan uttered the words irrational exuberance and many began to wonder whether the market had gone into a new era of valuation and trading characteristics, albeit, on the back of a new technological revolution

THE SEVEN LONGEST S&P ADVANCES - ABSENT A 10% CORRECTION (1950-2013)											
	STARTDATE	ENDDATE	DURATION			YEARLY PERFORMANCE FROM THE 832 DAY MARK					
#	YEARMTDY	YEARMTDY	YRS	MTS	DYS	STARTDATE	STARTSP	ENDDATE	ENDSP	%CHG
1	19901011	19971027	7	0	16	19930121	435.49	19940121	474.72	8.94
2	20030311	20071126	4	8	15	20050622	1213.88	20060622	1245.60	2.61
3	19621023	19660516	3	6	24	19650202	87.55	19660202	91.87	4.93
4	19840724	19871015	3	2	22	19861103	245.80	19871103	250.82	2.04
5	19500717	19530609	2	10	23	19521027	24.09	19531027	24.26	0.70
6	19571022	19600304	2	4	13	19600201	55.96	19610201	61.90	10.61
7	20111003	20140113	2	3	10	20140113	1819.20	20150113	?	?
						#UP-DN=6-0		AVG%CHG=4.97		MED%CHG=3.77

So should an 832 calendar day advance (the current advance), absent a 10% correction, be faded or respected? I asked the computer to look at each of the previous six +832 day advances, and measure the forward one year performance at the same 832 day point in their respective moves (right side of above table). The good news is they were 6-0 over the following 12 months and the bad news is the avg/med gain of 4.97/3.77% is about half the historical average, only 1960 advance managed a double digit year (10.61) and the 1987 case, while managing to post a 2.04% gain, had to endure the 30% crash in the fall of that year.

5. The 2014 TOY Story – Twas an Ok TOY

Most in the market timing business keep an eye on how the market performs in January as it has been shown to have some modest correlation with the performance of the remaining year. Based on an examination of all time periods available, my seasonal barometer of choice is the TOY (Turn Of the Year) Barometer, which is based on the S&P Percent Change from Nov 19 through Jan 19. Below is a breakdown of S&P performance for the following year, based on three different categories of TOY performance (1950-2013).

S&P One Year (Jan19-Jan19) Performance vs Trailing TOY Measure					
TOY Level	**Interpretation**	**#Up-Dn**	**Pct Up**	**Avg%Chg**	**Med%Chg**
Greater than 3%	**Bullish**	**32-1**	**96.97**	**16.88**	**15.02**
0 – 3%	**Neutral**	**11-7**	**61.11**	**5.90**	**5.75**
Less than 0%	**Bearish**	**4-9**	**30.77**	**-7.38**	**-7.93**

The 2014 TOY measure came in at 2.84%, which on a scale from 0-10, with 5 being neutral, I would consider a +6. For reference, I consider a 4-8% TOY to be a 10. The Bears will note, it is the weakest, and first sub 5%, TOY since the -7.36% 'Katie Bar the Door' TOY of 2008.

Given that this year's TOY (2.84%) is marginally under the 3% Mendoza Line for inclusion into the neutral category, I thought it appropriate to look at those 20 years since 1950, which have the closest TOY ratings to 2.84%, which turns out to be 1.18-4.50%. Those 20 TOYs were followed by up years on 13 occasions for an avg/med gain of 10.46/8.74%, much like a typical year. The ten of those 20 years, which were followed by double digit years were 8-2 to the positive side, with the big boo boos in 1974 and 1977. There have been no major TOY casualties at this level in the last 30 years.

A positive January and February on the tail of a positive December would give the string of five consecutive bullish TOY readings a reprieve, but it doesn't look likely, as January is currently down 0.5% (Jan 19). One could surmise the eventual inevitability of a down January, could trigger additional selling from those advocates of the January Barometer.

This year's TOY is not perfect, but it ain't bad. If every year were a layup, it would be too easy, but the TOY model, in and of itself, is not forecasting a Bear Market, just more along the lines of what equity markets normally do, and suggests if you are currently "ALL IN", you take a little bit off the table.

6. The 2014 Market Valuation Story (Written on January 15)

According to Standard and Poor's website, I have trailing 2013 S&P Earnings at $99.44. Given yesterday's (January 14) S&P Close of 1840.52 and keeping the math as simple as possible, a $100 earnings package for 2014, would put the current Price divided by Earnings (PE) at 18.40.

I have S&P Earnings data back to 1950. Over the course of the past 63 years, the average S&P P/E ratio is 17.97, which at first glance would suggest current stock prices are fairly valued with a lean to the expensive side. However, given that interest rate yields, are stocks primary competition for investment dollars, PEs tend to run a bit higher when interest rates are lower than normal, and vice versa when interest rates are high.

I broke the post 1950 earnings database into three different categories, with the TBill rate thresholds chosen to give me an equally representative sample size in each group.

1. **When Three Month Tbill rates are Low (Less than 3%)**
2. **When Three Month Tbill rates are Medium (Between 3-5.5%)**
3. **When Three Month Tbill rates are High (Greater than 5.5%)**

S&P Price to Earnings Ratio as a Function of Tbill Rates		
3 Mt Tbill Rates	# of Quarters	Avg PE Ratio
Any	253	17.97
Less than 3%	88	20.99
Between 3-5.5%	88	17.72
Greater than 5.5%	77	10.85

Even if one were to assume interest rates might increase as much as a percent over the next year, one doesn't have an extremely difficult time justifying a PE ratio of 20ish at year end, and if the consensus forecast (which is sometimes correct) for higher earnings this year comes through, the path of least resistance, from a valuation perspective, would be higher for equity prices. On a scale of 0 to 10 with 5 being dead neutral, I would give Valuation a +6, with a lean to the positive side, just in case Standard and Poor's estimate of Earnings of $120 comes through next year, a development that would be most likely Bull friendly.

7. The Implications of the 9% 'Sell in May' on 2014 (Written on Jan 15)

The 'Sell in May' period that I use in most of my models runs from May 5 to Oct 27. Since 1950, the 'Sell in Mays', are 40-24 for an avg/med gain of 0.10/0.71%. Of significance for 2014: Since 1950, if the 'Sell in May' period can buck the mediocrity trend and post at least a 5% gain, the following 'Buy in Fall' period is 18-0 for an avg/med gain of 12.50/11.88%. Eleven of those following 18 'Buy in Falls' were of the double digit variety.

BUYINFALLS AFTER 5% SELLINMAYS							
YEAR	SELLINMAY%	YEAR	BUYINFALL%	FEB%	MAR%	APRIL%	FEB-APR%
1949	7.59	1950	12.82	1.00	0.41	3.88	5.34
1950	8.51	1951	15.17	0.65	-1.47	4.42	3.55
1954	13.18	1955	18.11	0.35	-0.49	3.77	3.63
1955	11.95	1956	14.57	3.47	6.93	-0.21	10.41
1958	15.14	1959	14.54	-0.07	0.05	3.88	3.86
1963	5.68	1964	9.28	0.99	1.52	0.61	3.14
1964	5.09	1965	5.54	-0.15	-1.45	3.42	1.77
1968	5.62	1969	0.16	-4.74	3.44	2.15	0.66
1970	5.75	1971	24.86	0.91	3.68	3.63	8.42
1980	20.21	1981	1.91	1.33	3.60	-2.35	2.52
1982	14.97	1983	21.42	1.89	3.32	7.50	13.17
1988	7.14	1989	10.94	-2.89	2.08	5.01	4.09
1989	8.92	1990	0.99	0.85	2.43	-2.69	0.52
1995	11.46	1996	10.68	0.69	0.79	1.34	2.85
1996	9.24	1997	18.46	0.59	-4.26	5.84	1.93
1997	5.62	1998	27.21	7.04	4.99	0.92	13.42
2003	11.29	2004	8.77	1.22	-1.64	-1.68	-2.11
2009	17.66	2010	9.64	2.85	5.88	1.48	10.51
2013	9.00	2014	?	?	?	?	?
		#UP-DN =	18- 0	14- 4	13- 5	14- 4	17- 1
		AVG%CHG=	12.50	0.89	1.66	2.27	4.87
		MED%CHG=	11.88	0.88	1.80	2.79	3.59

As of the Close on Jan 15, 2014, the S&P is up 5.0% during the current 'Buy in Fall' period. The reason this 18-0 study is listed 7th on this list instead of 10th is because its impact only runs through the first four months of 2014 and it could theoretically give back some of its current 5% advance and still post the systems 19th victory. But in terms of attempting ascertain whether the current market advance has legs through the first quarter of 2014, this study, showing Feb-April at 17-1 is a '10'.

8. Thirty Percent One Year S&P Moves

On Nov 14, 2013, the S&P closed at 1450.99, putting it up 32.10% for the trailing 12 months. I scanned for all occasions since 1930 where the S&P was up at least 30% for the past year, for the first time in over a year. That is, one year repeats were not included. The results are not of an epiphany nature but, positive one year later in 20 of the 24 cases, above the test periods 7.33% average annual return, and exceeding what most of us would have anticipated from what many would perceive an overextended move. The last ten cases, which occurred over the last 30 years, were all positive one year later. This study 'is not' performed on calendar years, but occurs on the first date of a trailing 12 months of 30%.

ONE YEAR S&P PERFORMANCE AFTER A ONE YEAR +30% MOVE						
#	YEARMTDY	S&P	YR%CHG	YEARMTDY	S&P	YR%CHG
1	19330422	7.75	30.03	19340422	11.14	43.74
2	19350907	11.72	31.39	19360907	16.12	37.54
3	19390326	12.04	30.87	19400326	12.01	-0.25
4	19430305	11.05	31.86	19440305	11.90	7.69
5	19451031	16.65	30.28	19461031	14.84	-10.87
6	19500531	18.78	32.35	19510531	21.52	14.59
7	19540907	30.66	30.08	19550907	43.85	43.02
8	19581021	51.27	30.96	19591021	56.55	10.30
9	19611025	68.34	30.92	19621025	54.69	-19.97
10	19630621	70.25	31.09	19640621	80.89	15.15
11	19671006	97.26	31.34	19681006	103.71	6.63
12	19710428	104.77	30.52	19720428	107.67	2.77
13	19750927	86.19	32.72	19760927	107.27	24.46
14	19801020	132.61	30.52	19811020	120.28	-9.30
15	19830214	148.93	30.21	19840214	156.61	5.16
16	19850720	195.13	30.48	19860720	236.36	21.13
17	19890727	341.99	30.28	19900727	353.44	3.35
18	19911016	392.80	31.41	19921016	411.73	4.82
19	19951118	600.07	30.03	19961118	737.02	22.82
20	19970612	883.46	32.05	19980612	1098.84	24.38
21	20031007	1039.25	32.34	20041007	1130.65	8.79
22	20091117	1110.32	30.51	20101117	1178.59	6.15
23	20110701	1339.67	30.40	20120701	1362.16	1.68
24	20121003	1450.99	32.00	20131003	1678.66	15.69
25	20131114	1790.62	32.10	20141114	?	?
					#UP-DN =	20- 4
					AVG%CHG=	11.64
					MED%CHG=	8.24

Bears are quick to note that although the above study is not based on calendar years, we've had not just one, but two double digit years in a row and if you go back to Road Sign 2 (The Three Year Pattern), you will see the current three year pattern is not as constructive. Point acknowledged.

9. The Mid October 2013 'Breadth' Thrust

The Market showed some moxie in Mid October, the type that should be a positive impact on equities in the first half of 2014. The following database of post 1970 breadth thrust signals were generated via a scan for three different proprietary breadth measurements I fancy.

NYSE Common Breadth Thrust Signals

DATE	THRUST1	THRUST2	THRUST3	1MT%	3MT%	6MT%	12MT%	DRWDWN	DRWUP
19700604	84.52	81.01	69.43	-5.74	7.07	15.64	30.95	-9.28	33.43
19700831	81.70	72.70	66.95	3.41	6.97	18.68	21.48	-1.11	27.99
19701207	77.37	72.83	69.87	2.71	10.03	12.40	7.71	0.00	17.11
19711206	84.44	79.52	71.23	7.25	12.70	12.12	22.28	-0.57	22.58
19741015	73.74	78.46	70.52	0.66	0.98	20.80	24.90	-10.63	31.44
19750109	85.40	81.43	73.08	10.48	16.40	33.20	33.41	0.00	36.51
19750203	82.18	74.73	69.43	6.69	14.65	13.07	30.02	0.00	31.44
19760109	76.98	81.13	73.95	4.92	5.69	10.56	10.60	0.00	14.01
19820823	70.30	76.30	74.69	6.65	14.51	26.44	40.21	0.00	51.29
19821013	73.46	75.49	73.97	2.09	6.61	14.70	24.28	-1.12	28.42
19840809	83.20	77.52	68.37	-0.71	1.24	10.06	13.76	-0.05	20.96
19870112	91.18	79.50	74.57	5.89	12.37	18.47	-5.72	-13.45	30.16
20021018	80.07	75.47	64.75	1.81	1.97	1.04	17.52	-8.93	19.43
20051107	83.41	73.53	64.39	2.83	2.61	8.42	13.09	-0.13	13.85
20081202	86.66	81.67	68.58	9.78	-17.43	11.30	30.68	-17.11	36.06
20090108	87.03	77.64	66.04	-4.52	-9.30	-3.31	25.86	-25.38	26.29
20090318	72.67	74.44	73.47	10.11	15.61	34.49	46.77	-1.23	49.88
20090721	80.34	82.90	72.63	7.50	13.29	16.96	12.05	0.00	27.98
20090826	74.62	79.61	67.11	1.58	8.02	7.43	1.86	-3.23	18.41
20090914	82.54	78.42	73.18	4.07	6.17	9.59	6.84	-1.93	16.74
20091013	86.10	75.46	66.83	1.89	6.75	11.56	9.78	-4.98	13.11
20100618	86.53	82.15	65.81	-4.71	0.72	11.31	13.78	-8.37	22.18
20100715	87.00	72.54	66.51	-1.57	7.27	17.94	20.03	-4.38	24.51
20100730	89.64	75.86	61.10	-4.78	7.41	15.86	17.31	-4.93	23.79
20100910	85.20	67.55	66.69	5.01	11.79	16.72	4.03	0.00	23.50
20101209	86.18	72.96	64.32	3.12	7.06	4.54	1.80	-10.51	11.02
20110706	78.99	77.37	71.43	-10.44	-13.01	-4.59	1.15	-17.84	6.07
20110831	85.03	67.63	70.59	-7.18	2.30	12.04	15.40	-9.37	16.99
20111012	79.98	67.00	72.22	4.69	7.31	14.94	18.33	-3.08	22.60
20111031	91.39	68.77	60.28	-0.51	4.72	11.54	12.68	-9.84	14.06
20111229	80.75	77.38	65.45	4.22	11.11	7.85	11.04	0.00	17.30
20130109	93.39	79.15	66.11	3.90	7.36	13.09	26.51	0.00	26.85
20131018	86.40	65.06	71.32	2.70	5.95	5.95	5.95	0.00	6.65
			#UP-DN =	24- 9	30- 3	31- 2	32- 1		
			AVG%CHG=	2.24	5.97	13.06	17.16		
			MED%CHG=	2.83	7.06	12.12	15.40		

The NYSE Equity Only Database utilized was provided by Common Stock Only Database. Contact Patrick at csodatabase@live.com for information regarding the acquisition of such.

The last breadth signal in the above table, recorded in mid October of 2013, developed in response to a resolution to the budget stalemate. The October signal is a much needed piece for the bullish case for 2014, as the lack of this last October thrust signal would have left us with none of this class of breadth signals in over a year, the first time that would have developed since 2007-08.

With the exception of the last signal, which is only two months into development, 31 of the remaining 32 signals were up at least 10% at some point in the following 12 months, and 30-3 at the three month time interval is extremely rare for any indicator measured over 40 years.

The Mid October Breadth Thrust action is supported by some similar price thrust analysis I have on the same time period. Tape analysis is not the only factor which should go into one's analysis of market conditions, but it is my observation that the intermediate tape action has not yet turned negative and is healthier than most give it credit for.

S&P 500 June 12, 2013 through January 10, 2014

10. The TINA Trade- There Is No Alternative

Whenever an investor begins to consider moving out of equities, he has to stop and give consideration as to what he will do with his newly acquired cash. He is then prone to second thoughts as he comes to the realization it will take six months for his money market account returns to pay the $15 wire transfer fee required to transfer his newfound cash to his bank. Similarly, it is difficult for portfolio managers to justify the management fees they charge their clients, when those levied fees are in excess of what those managed assets can draw in cash alternatives. Compounding matters, economist widely anticipate the Federal Reserve's monetary policies of the last half decade to have inflationary repercussions, thus making investments in longer term treasuries a likely losing proposition. Unless, one has a proclivity for selecting other commodities as an alternative investment, stocks remain the viable alternative for the vast majority of investors. By the way, we would suggest you give commodities and other alternatives a good tire kick.

And while on the subject of the Federal Reserve, although the Fed has began to taper their Quantitative Easing exercise, it is important to note that contrary to perception, they are not in tightening mode, but are simply tightening the rate at which they have been loosening. They have, in the past, been very forthcoming in stating where they are headed and all indications are shortterm rates will likely remain near zero for the duration of 2014 and the Fed is still purchasing long term bonds, or their equivalent, at a pace of $75 billion a month, a smidgen below the original $85 billion a month, but a far cry from the tightening mode which has issued in many a Bear Market. Bernanke, and now Mrs. Yellen and her fellow Fed members, give every indication they continue to be fans of equity ownership and have promised to taper the tapering at the first sign of economic malaise, regardless of the longterm inflationary or deficit expanding implications bequeathed upon the next administration. And besides if rates were to creep up to 1%, it would likely be accompanied with earnings inline with optimistic estimates ($120) justifying higher price levels, of which a 1% return on interest bearing securities would still struggle to compete with.

The 2014 Outlook Summary

The S&P has experienced back to back double digit S&P calendar years, concluding with a 29.6% advance in 2013. Looking a year ahead, 2015 is a Pre-Election year which hasn't been negative since 1939 with 13 of those 18 of the double digit variety. If we are going to have a big 2015, it would make sense to take a pause in 2014, otherwise we are confronted with the prospects of four straight double digit years, which has only happened twice since 1930, from 1949-1953 and during the recent dot.com bubble era of the 1990s. The perpetual Bulls would argue we have the potential for another bubble on the back of unprecedented Federal Reserve stimuli, a QE bubble if you may, and to be honest, I could resonate with what they are saying, if there just weren't so many of them saying it at the same time. Given we are entering a Middle Election Year with the highest bullish sentiment levels since 2007 and a very lackluster turn of the year (TOY=2.84%), I don't see enough evidence to support another double digit year in 2014. So the next question then becomes when does the bump occur and what will it look like? We noted in our Middle Election study (Road Sign 3), the fourth quarters of MidElection years (2014) were 18-3, so the damage is likely to occur by midyear, at the latest. Given current excessively bullish sentiment levels and a tendency for weakness in the summer of Middle Election Years, a sizable correction certainly lies within the dog days of summer, 'if it doesn't occur before then '. Thus the question is narrowed down to one of; "Can we make it to May, before incurring a meaningful correction?" My expectations are that we have a 5% correction in the first three months of the year, shake out enough money, to make one more successful attempt at new highs into April and then get the 10% summer correction. There are three primary reasons why I think the selloff waits until late spring/early summer, listed in order of significance below;

1. **The One Year 30% advance (Road Sign 8) compiled on November 14, 2013, of which the last ten similar occurrences, over the last 30 years, have led to higher prices one year later, suggesting the market has enough momentum to work forward.**

2. **The very bullish V shaped tape action in mid October (Road Sign 9) accompanied with solid breadth on the upside of the V, also supports the thesis this rally is not operating solely on fumes, not just yet.**

3. Of most significance relative to the prospects for the spring, if the S&P had enough strength to post a 5% Sell in May (May5-Oct27), the following February-Aprils are 17-1 since 1950, for an avg/med gain of 4.87/3.57%.

At 838 days (As of Jan19) and counting, we are currently in the midst of the 7th longest post 1950 advance without a 10% correction and most all of the market sentiment polls reflect that investors are at dangerously high levels of optimism which makes the market vulnerable to any unexpected curve balls. The current Makuna Makata mentality puts the market in the precarious position of being at risk to any unexpected, unfriendly market events, whether it be unexpected credit rating reductions of European countries, Mideast turmoil, self inflicted financial crisis, budget stalemates, natural disasters, or some other unforeseen calamity of financial consequences. Stuff happens, and given the current popularity of equities, a flip from 75% Bulls to 75% Bears would be tough on a Bull who is faint of heart.

A midyear double digit correction would shake out the uncommitted dollars and set the stage for the PreElection year leg of this bull market. We should learn a great deal about the longterm health of the market by the nature in which that rally, on the backside of the correction, presents itself. At the end of the day, earnings and the amount of money available to chase them, will call the longterm direction of equities and the Federal Reserve has given every indication they intend to keep the printing presses in overdrive as long as needed.

Although the market has obstacles to deal with in 2014, given the prospects of even low range estimates of $110 for 2014 S&P earnings, it is difficult, with interest rates still hovering near historic lows, to foresee the S&P not finishing the year at a multiple of 'at least' 17 times 2014 Earnings, (110x17=1870), finishing the year at least above where it started (See Road Sign 6), albeit possibly of the single percentile variety. The road shall be a bit bumpier than the last couple of years, but there are simply few other viable alternatives to equities for the vast majority of investors. The genesis of the next Bear Market does not originate in 2014, which is likely a trading range bound year, finishing modestly to the plus side.