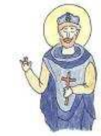
Hamilton-Bates
Market Update

February 14, 2014



February 14 (around 278 A.D.)- Valentine, a holy priest in Rome in the days of Emperor Claudius II, was executed. Valentine defied Claudius and performed outlawed marriages for young lovers in secret. When Valentine's actions were discovered, Claudius ordered that he be put to death.

P.O. BOX 270 Newtown Square, PA 19073 877.768.4247 www.hbir.com

Stocks end the week with solid gains some decent earnings news coupled with favorable comments from Fed Chair Yellen and a clean debt limit bill. Volume has been light on the rebound this week but the horrible weather in the eastern half of the country likely slowed trading with travel difficult and power outages widespread. The NASDAQ has returned to its January high and other index highs are close. Breadth has been strong as advancing stocks continued rise. The bottom line is that the overall outlook is again positive and the market has room for more gains.

Markets Love Yellen and More Debt

This week Fed chief Yellen went to her first semi-annual monetary policy testimony before the House Financial Services Committee. Her remarks did not contain any major surprises. She noted that the 'recovery in the labour market is far from complete' and that it is important to 'consider more than the unemployment rate when evaluating the condition of the U.S. labour market.' These remarks suggest that Yellen views the labour market as having ample remaining slack, as we do, which was taken as bullish for future QE. Yellen also indicated that as long as new data is broadly consistent with the Fed's expectations, it will likely reduce the pace of asset purchases in further measured steps at future meetings. She noted that there is not preset course. With confirmation that she will not depart from Bernanke's course, the markets were cleared for a rally.

Not covered with as much attention as Yellen's testimony was the fact the House Republicans offered up a clean spending Bill, which removed any threat of a government shutdown for the next year. This news was probably equally important to Yellen's comments in spurring this week's rally.

Market Outlook and Investment Strategy

The market did not follow through with further downside following last week's break of 1770 on the S&P 500. Rather markets rallied in response to favorable comments from the new Fed Chair and the passage of a clean spending Bill. The quick recovery above 1770 on the S&P followed by a quick move above 1800 means that 'Option 1—resumption of bull trend' from the last Update is the preferred course. Once again this market defies odds and convention and avoids a full-fledged correction. As long as the S&P 500 holds above 1800 the bulls are back in control.

On a longer term basis, the markets remain very extended, overly bullish and excessively valued. Such conditions are not resolved by a short-term dips that we have seen since mid-2013, but rather require longer-term market reversions to clear the decks. However, it is also important to remember that markets can remain irrational longer than most would expect, lulling investors into an extreme state of false security. We'll take the upside with the renewed trend, but we continue to have concerns for 2014.

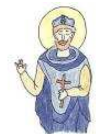
Not Out of the Woods Yet for 2014

Historically mid-term election years have a nasty tendency of early peaks and summer swoons. Also, the decline in 2014 below the December 2013 low coupled with the negative January Barometer have in the past seen a greater pullback than we just had. Furthermore, the recent economic soft-patch may worsen in coming months, and along with continued weakness in corporate revenues, could put a damper on upside.

Price as always is the key, and this week market action determined the trend to be 'up' with the S&P 500's push above 1800. The quick rebound was impressive in its speed, and sold positions from about a week ago were quickly repositioned. The trades created a bit of portfolio turnover, but that is more beneficial than severe losses in an un-hedged portfolio during a decline.

Hamilton-Bates
Market Update

February 14, 2014



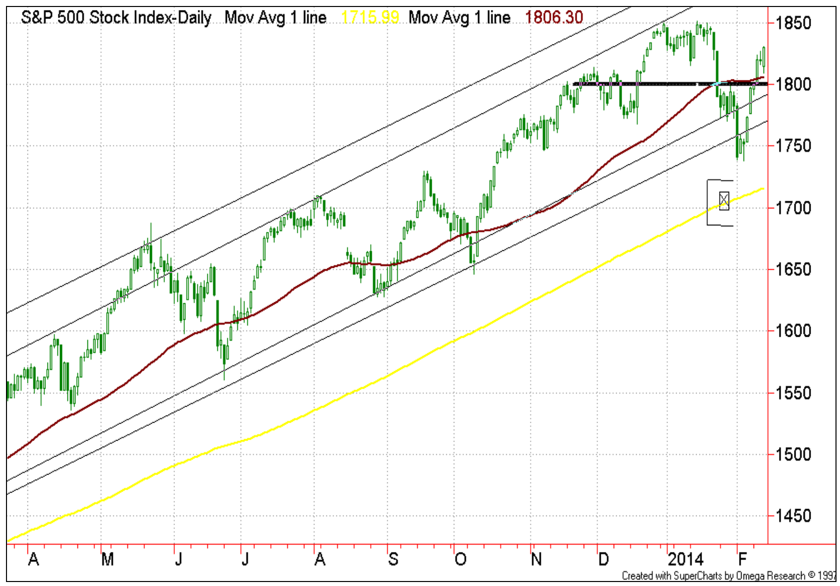
February 14 (around 278 A.D.)- Valentine, a holy priest in Rome in the days of Emperor Claudius II, was executed. Valentine defied Claudius and performed outlawed marriages for young lovers in secret. When Valentine's actions were discovered, Claudius ordered that he be put to death.

P.O. BOX 270 Newtown Square, PA 19073 877.768.4247 www.hbir.com

Charts—The S&P 500 : Key Short and Long-term Levels to Watch

Near-Term S&P 500 (Top)
Once again a potential correction has proven to be a head-fake as the market never did touch its long-term average and our downside target (X in chart). It seems even a reduced QE is along with zero interest rate policy is enough to stoke the asset bubble. With the both the 1170 and 1800 levels regained by the S&P 500, the market looks poised to continue its bull rally.

Unless the S&P falls below 1800, the bulls have regained control.



Key Level for the Big Picture (right)
Over the past 18 years a key warning that something more than a normal correction was unfolding came when the S&P broke a multi-year trend-line (3 solid lines) and fell below its 10-month average (in red). These things happened early in 2000 and 2008 warning of a potentially larger decline. The S&P dropped to 1740 on the last pullback, but never really challenged the 1700 level which was at that time key for the long-term bull trend.

Currently, a drop below 1730 would be a major warning for long-term investors or buy-hold investors thinking of making an adjustment. A drop below 1730 puts the bull in doubt.