June 13, 1966—the Supreme Court hands down its decision in Miranda v. Arizona, establishing the principle that all criminal suspects must be advised of their rights before interrogation.

Hamilton-Bates
Market Update
June 13, 2014

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History of Friday the 13th

According to folklorists, there is no written evidence for a "Friday the 13th" superstition before the 19th century. One theory states that it is a modern mix of two older superstitions: that 13 is an unlucky number and that Friday is an unlucky day. The number twelve is considered the number of divine organizational arrangement or chronological completeness, as reflected in the twelve months of the year, twelve hours of the clock day, the twelve gods of Olympus, twelve tribes of Israel, twelve Apostles of Jesus, the 12 successors of Muhammad in Shia Islam, twelve signs of the Zodiac, and the 12 years of the Buddhist cycle. The number thirteen however was considered irregular, transgressing this completeness and twisting it to dark ends. One other theory, with a market twist, has noted that references to Friday the 13th have largely come after 1907, the publishing date of a book by Thomas W. Lawson called *Friday, the Thirteenth*, in which an unscrupulous broker takes advantage of the superstition to create a Wall Street panic on a Friday the 13th. So far today the market is quietly trading slightly higher. Throw some salt over your right shoulder just in case...or is it your left?

Economics, Earnings, and Interest Rates

A combination of disappointing economic news and violence in Iraq sent stocks lower this week as the market corrected the pretty much straight up move from the April lows. There have been strong expectations for a growing US economy for the remainder of this year but the recent slashing of GDP expectations is threatening that view. We've also gotten a raft of slower than expected economic news including this week's increasing jobs claims and sluggish retail sales. This is a concern since now that its warmer the weather can't be blamed for the lack of needed improvement. The sudden collapse of the US trained Iraqi army also sent crude oil up sharply which could eventually add a dampening affect to the economy.

Disaster in Iraq

News from Iraq has been devastating and disheartening this week as the fanatical group known as ISIS has captured several cities including the major northern Iraq city of Mosul. Apparently US intelligence was caught off guard by the rapid collapse of the Iraqi military. As well as totally routing Iraqi forces there, ISIS captured several attack helicopters at the Mosul airport as well as $400 million from the Iraqi central bank. They are now the wealthiest terrorist group in history. The government in Iraq looks to be near collapse, a sad state given all the US blood, effort, and dollars there.

As an investor this matters because of oil, as Iraq produces about 3 million barrels per day, or 4% of world production. If this oil came off the market it would clearly send prices higher—something they have already been doing (moving up). Higher energy prices hurt consumers, acting as a 'tax' and increasing the cost of living by affecting the prices of nearly every consumer item. Hopefully we (the US) won't wash our hands of the situation and leave the Iraqis on their own, although the current administration looks completely overmatched in the geopolitical realm as Putin illustrated.

Market Outlook and Investment Strategy

So far modest the modest pullback this week hasn't turned the trend lower, but we could see even more of a consolidation next week. After long vertical moves up from April the market was certainly over-extended. Modest consolidating pullbacks could be constructive, as long as the market holds near-term support around 1900. A drop below there could lead to a larger move toward as low as the mid-1800's . The longer-term outlook remains constructive as the breadth confirmed the latest high and the averages are above all their key long-term levels. We'd look for new buying chances to develop in the upcoming weeks.

We remain invested with a focus on blue-chips and dividend paying stocks. As along as the weakness holds above 1900 on the S&P 500, we'd look for higher market levels. Any further weakness below that level would suggest a more protracted pullback. A drop below 1835 would be needed to threaten the long-term bull trend.

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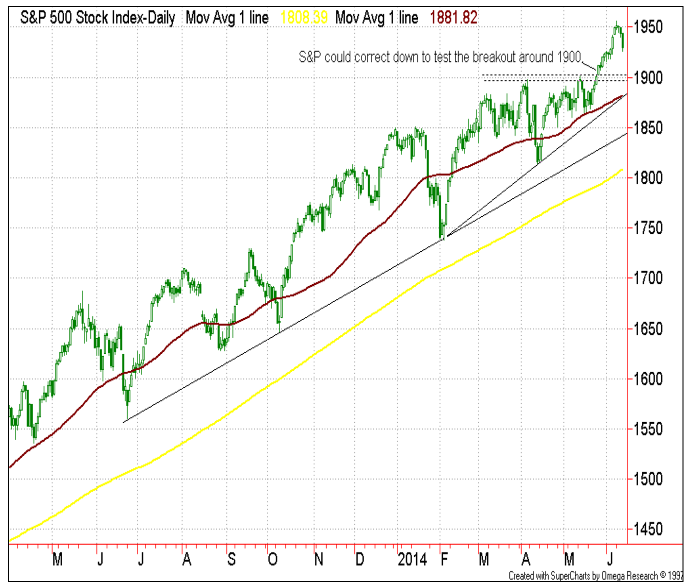
Charts—Short-Term Correction but Bull Trend Intact

S&P 500 Correcting After Breakout (top)
The push above 1900 on the S&P gives some pattern targets at 1980 and 2150. We are seeing a dip this week and the drop could go toward 1900 without invalidating the breakout. The easy money has likely been made in this bull-market, but some upside remains. Looking longer-term Option Volatility is near generational lows so this is not a buy and hold market. Volatility will pick up. We'll be ready when the market finally turns.



Long-Term S&P 500 (bottom)
Still no change to the long-term outlook as the S&P has stayed above the uptrend line from 2009. The level to watch is now 1835, a level that if lost would open the door for a potential decline down to as low as 1500-1600. A correction could bounce off of 1835 and still not change the long-term outlook, so its too early to say the bull market is over.

A drop below 1835 on the S&P would be a warning move for all investors to pay attention and consider defensive measures.