CITRINCOOPERMAN®
WEALTH MANAGEMENT, LP
Registered Investment Advisors

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Despite finishing in the red for September, the S&P 500 index closed out the third quarter in the black, extending its string of quarterly gains to seven. The large-company index hasn't posted a losing quarter since the fourth quarter of 2012, when it slid just 1%. The S&P 500 finished the third quarter up 0.6% and is up 8.34% through September 30th. The equity markets have been a tale of two cities. While the large cap stocks continued to push higher, smaller stocks did not fare as well. The small cap index (Russell 2000), was down 4.41% through the end of September. This divergence between large and small cap stocks has given analysts concern about what may happen to the overall market in the near future.

During the quarter, the overall stock market was once again able to discount a myriad of geopolitical fears. The Ukraine and Russia conflict reignited uncomfortable memories of the cold war. The decision to promote U.S. military involvement in Iraq and Syria in an attempt to hobble the Islamic State militant group was a sign of just how scary the prospects have become for allowing ISIS to go unchecked in the Middle East. As the fourth quarter began the pro-democracy protests in Hong Kong gained momentum and it became increasingly apparent that getting control of the Ebola outbreak would prove more difficult than originally thought.

In addition to geopolitical pressure, the Street wrestled with the reality that the Federal Reserve will end its bond-buying program this month and likely start raising interest rates in 2015. Everyone understands that interest rates will eventually have to rise. Yet while it is consoling to see rates increase as a result of an improving economy, the stimulative effect that the long-standing Federal Reserve "easy-money" policy has had on financial markets should not be under emphasized.
Through it all, most stock sectors climbed during the quarter on the strength of the improving US economy and the continuation of low interest rates. One notable exception is the energy sector, which declined 9% in the quarter, fueled by an almost 20% fall in the price of a barrel of oil since June. Despite this, the S&P 500 peaked at an intraday high of nearly 2020 on September 19, the day the widely hyped Chinese e-commerce giant Alibaba began trading publicly.

The Street now looks ahead to the remainder of 2014. October is a month well known for stock market crashes, notably in 1929, 1987 and 2008. While the weakness seen thus far in October does not rival those historic collapses, the long awaited correction may have begun. The extent of the selloff is of course difficult to predict but one point looks increasingly evident. The period of low volatility that prevailed through most of 2013 and all of 2014 has come to an end. The days of triple digit swings in the Dow Jones Industrial Average that returned with abandon in September have gained even more momentum in October.

CCWM will monitor the situation closely. Despite the stunning decline in the ten year treasury rate on October 15, it is still generally expected that an improving US economy will pave the way for higher rates, commencing in 2015. Accordingly, we continue to focus on shorter term bond market exposure. As for equities, we do not intend to veer off course. Without the advantage of a crystal ball, we will remain focused on individual portfolio allocation. It is this focus that will enable our clients to avoid panic in the face of the current selloff and beyond, as investors grapple with an increasingly volatile stock market.

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