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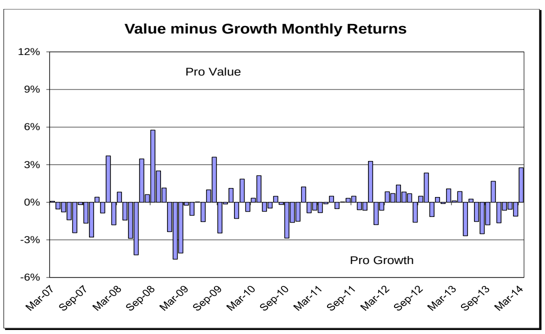
Market Commentary

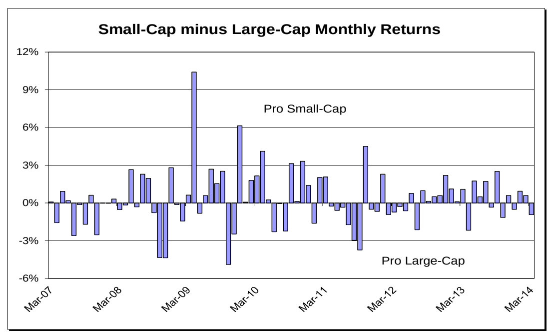
BURNEY COMPANY
INVESTMENT MANAGEMENT

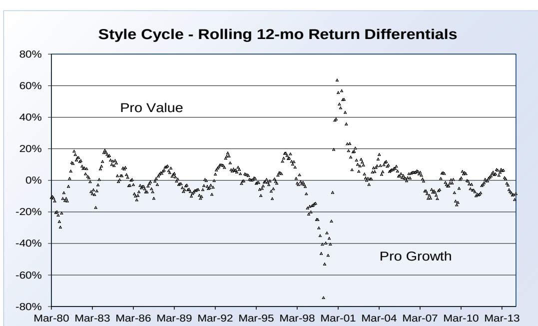
Size and Style Update

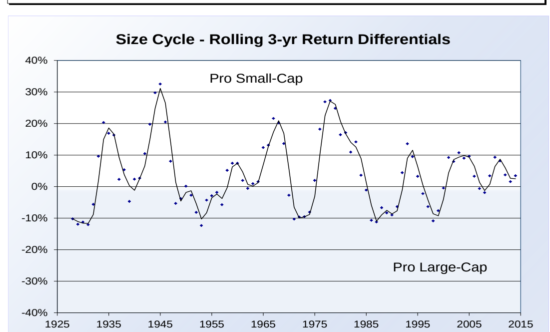
After a year-long rally, growth stocks took a one eighty in March. Across all market caps growth stocks ended in red while value stocks enjoyed moderately positive gains. It is still early to say whether these rotations are temporary or imply further advances, but the "Style Cycle – Rolling 12-mo Return Differentials" chart below makes evident that we're mid- to late- in a Growth phase. During economic downturns value is everywhere but growth is hard to find. As a result, growth stocks are chased and prices bid up. But as company earnings improve, value stocks, which outperform in the long run, become more attractive. This trend has obvious implications for today's environment as the economic recovery becomes self-sustaining and investors finally come to the realization that growth stocks are over priced, Improving economic conditions should signal the beginning of a value biased market phase.

While this most recent one month shift to Value is apparent, a similar rotation from Small-cap stocks to Large-cap stocks is not. It does, however, seem that small-cap momentum is running out of steam as the market has been bouncing back and forth in Size for several months. We expect to see the first interest rate hike in early 2015. The subsequent rising exchange rates and borrowing costs will be less favorable to large companies, but before then, don't be surprised if small, frequent, unsure switches between large caps and small caps continue.









Source: Burney's calculations *using Wilshire size and style indices.*

Macro Conditions

The market entered 2014 expecting a volatile year as the wrap up of QE was inevitably going to lead to mixed signals and confused investors. At the policy level, new Chairman Janet Yellen tried to send a message that the Fed plans to keep an accommodative monetary stance for a significant period of time. However, she upset a sensitive stock market by estimating that the federal funds rate will be increased "around 6 months" after QE ends – a time horizon that put the first interest rate rise earlier than the market expected.

At the trading level, rising equity-only put-call ratios and negative market breadth are clearly bearish signs. But VIX, the "fear gauge", has settled at relatively low levels. Macroeconomic indicators are also conflicting with good news and bad news ebbing and flowing in turns. The direction of the market is never clear cut but, all in all, there appear to be more tailwinds than headwinds and the Fed's continued taper shows the Fed's confidence in the recovery. If you hold a long term view, we believe that every mini-correction in this year is an opportunity to load your boat.