FLEURUS INVESTMENT ADVISORY

April 4, 2016

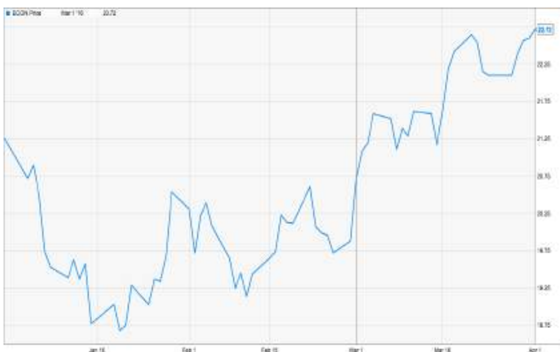
**Overview**

In March, the S&P's 500 total return index gained 6.80 %. This compares to 6.56% for international developed markets (EPAC BMI index) and spectacular double digits performances in some emerging markets. Dovish comments from the FED and continued accommodative policies from the European Central Bank (ECB) and the Bank of Japan contributed to a drop in the value of the USD (-4% on average this month) which in turn provided support for most risk assets.

Our four model portfolios benefitted from this uplift and rose from 3.50% to 5.15% this month. Year to date (YTD) our portfolios are up from .40% to 1.40% net of fees. This compares to a performance of 2.33% for a purely US-centric portfolio consisting of 50% SPY (ETF for the S&P's 500) and 50% BIV (US bond aggregate ETF proxy), over the same period.

**Market developments**

Macro economic developments dominated the calendar in March. As indicated earlier, market-soothing comments from the FED coupled to an announced increase to the size of the ECB's quantitative easing program contributed to bringing interest rates down across most developed markets and to push the USD down. In turn, a lower USD benefitted emerging markets and commodities. Both rallied significantly, with the consumer sector in emerging markets up close to 14% (ECON). The graph of this ETF is below. The vertical line marks the beginning of March



Generally speaking, all risk assets moved up, from high yield bonds, and REITS to equities, irrespective of sectors and style.

This played a part in reducing the overall financial risk level as measured by the FED's financial stress index. Chart below.

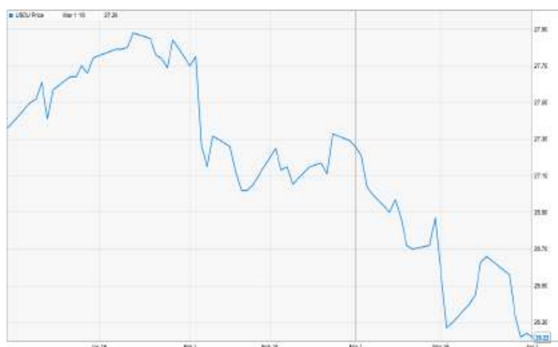
Note however how limited the drop was (very right portion of the chart) and how, viewed with a 10-year perspective, the index remains quite high.
Meanwhile, the Death Cross formation of the S&P's 500 that we commented on last month continues to occupy our mind.

When the yellow line (200 day moving average) crosses the blue line (400 day moving average), on its way down, it more often than not announces a market correction. There is no certainty about it though and this market may avoid that fate. We would expect to know more within a few weeks or within two to three months.

**Tilts and Allocations**

In March we limited our investment activities to reducing our long USD positions, adding to our holdings in the financial sector and selectively buying into commodities, using XLE as our investment vehicle.

We sold about one third of our USDU positions across all our portfolios. This is an ETF that tracks the value of the USD against a basket of currencies. This proved beneficial to our portfolios as evidenced by the chart below.



The drop in the value of this ETF was about 4% in March.

We continued to add to our positions in oil-sensitive stocks with the ETF XLE and to the financial sector using XLF. In a strongly upward moving market, these decisions were particularly beneficial to our portfolios with XLF up 6.68% and XLE up 9.38% over the course of the month.

**Conclusion**

A month can make a significant difference both in terms of performance and in terms of investor psychology.

At the beginning of March I spoke about the notion of Black Swan. Today, things look rosier and I have to make an effort to think more rationally about markets conditions. There is nothing fundamentally different between conditions at the end of February and where they stand now. Yet, I catch myself thinking about the possibility of the S&P's 500 continuing on its recent uptrend.

I am fighting a classic case of "representativeness". This is the behavioral bias that leads to overweighing the importance of the most recent events (such as a market moving strongly up in March) at the expense of others that may be more relevant to a correct evaluation of the situation at hand.

A sober assessment of the situation leads me to think that the US equity markets remain probably caught in a broad range. For the S&P's 500 this range has an upper limit around 2150 and a lower one around1800.
On February 11, we bounced back up at around 1810. We are now at 2073.

The vertical line, in the chart of the S&P's 500 below, is set on October 2014. Since that time, we have repeatedly reached the 2150 area only to drop several times to the 1810-1830 zone before bouncing again. We may already have enjoyed all of what the current bounce has to offer.

Should the downtrend of the USD be confirmed over the next six to eight weeks and accompanied by reasonably good first quarter earnings, we may have a chance to break from this range to the upside. Should it prove unsustainable and earnings disappointing we may test the 1810-1830 area yet again.

For now, we advise patience.

Best regards,