Tillman Stock and Bond Hotline
For: Thursday, May 30, 2013
(800) 219-1333 vethotline@vanecktillman.com

We keep hearing a theme in the media these days that does not bode well for the stock market (near-term). Despite the fact that bullish sentiment is through the roof, a number of big name analysts and commentators insist that this is one of the most hated rallies in history. Such claims are based far more on greed-driven beliefs than on hard analysis. The Investors Intelligence reading on bullish sentiment recently hit a new two-year high of 55.2%. That was just below the April 2011 peak of 57.3%. For someone to claim that the financial community is afraid to buy stocks - when the market has refused to take more than a few days in a row to rest this year - smacks of wishful thinking. The S&P 500 is up by 16.5% year-to-date and 26.5% during the past full year. While there has been some chatter about the dangers of a nonstop rally in the market, most investors are acting like they believe the upside remains wide open. That can be seen in the recent bullish talking points about how this is a "new bull market" and that "stocks are still super cheap." It appears that some of the bulls are insulted by the mere suggestion that stocks are overdue for a rest and consolidation. That is not a good sign.

We believe the major indices have a good shot at trading higher (than current levels) a year from now. In the near-term though, the market has priced in nearly every piece of good news (real and imagined) and investors are not prepared for any disappointments. Earlier this year, we decided to raise 30 percent near-term cash. We did not take that decision lightly. After riding the bull market rally for 46 straight months, we wanted to take steps to protect some of the recovery gains. Between the March 9, 2009 low and our January 2, 2013 near-term sell signal, the S&P 500 gained 115%. Since then, the index has tacked on an additional 14.4%. Given our current cash position, we have missed out on a total of 4.3%. In this results-driven world, some people no doubt would say that our relative caution in 2013 has been a big mistake. Let's put this situation in perspective. On the first full day of this bull market rally (March 10, 2009), the S&P 500 gained 6.4%. That's right, you are reading that number correctly. You often hear about the total gain in the stock market since the March 9, 2009 low. However, how many investors and analysts remember that the bull cycle got off to such a strong start?

We have kept 30% cash on the sidelines for nearly five full months. Yet our missed gain in the stock market has been only two-thirds of what happened on the first day of the recovery. Many of the people that are pounding their chest these days and saying that stocks are the only game in town no doubt missed out on at least some of the early gains in the bull market. If an investor waited just one day after the last bear cycle bottom before they went from cash to fully invested, their total gain to date would be less than what we have seen. To bring even more perspective to the matter, the S&P 500 gained 11.4% during the first week of the recovery (March 9, 2009 to March 16, 2009). The index gained an astonishing 26.6% during the first month of the bull market! With Wall Street and the Financial Establishment in full celebration mode these days, such history

has been forgotten. We will let those numbers speak for themselves. We wish we had stayed fully invested this year - and therefore achieved the maximum gain. However, we consider it our job to not only help subscribers to grow their wealth - but to protect it as well. Under normal circumstances, the events of 2013 (fiscal cliff, budget sequester, slowdown in the economic recovery and disappointing corporate results - especially revenues) would have been enough to trigger a correction in the market.

At the very least, investors should have faced enough of a headwind to keep the major indices from gaining much ground this year. However, with the Federal Reserve providing tens of billions of dollars in liquidity to the financial system every month - these are not normal circumstances. That monetary easing has helped to boost demand for all sorts of goods and services. Some of the money has found its way into the stock market. More importantly though, the Fed quantitative easing has convinced some investors that stocks have nowhere to go but up - and therefore cash that would have otherwise sat on the sidelines has flooded into the market. All of that qualifies as a self-fulfilling prophecy. Investors have come to believe that Fed actions guarantee sustained gains in the stock market. Cash has been put to work based solely on that idea and the market has rallied as a result. Even after some powerful gains during the first five months of the year (the market is up by about 16.5% year-to-date), many of the bulls seem to believe that the process will go on indefinitely. During our decades in the business, we have seen similar attitudes crushed and disposed of in short order. All that is needed is a catalyst. At this point, the Fed is the most likely trigger.

Last week, a number of Federal Reserve officials offered the strongest hints yet that the pace of quantitative easing will be slowed during the not-so-distant future and brought to an end sooner than most of the bulls believe is possible. The Federal government just lowered its estimate of first quarter GDP from 2.5% down to 2.4%. Weaker than expected government spending was the main culprit. The impact from consumer spending was actually bumped a bit higher. However, much of that improvement came in the form of higher gasoline prices - so it is not as encouraging as it might seem on the surface. The higher taxes and budget "cuts" that have been implemented this year have taken some of the wind out of the economy's sails. That is one of the reasons that corporations posted such uninspiring earnings and revenues during the first quarter. Things are not expected to get better in the near future.

Current expectations for the second quarter are looking for S&P 500 earnings to grow by about one percent (year-over-year). Revenues are expected to DECLINE again - this time by about 0.7%. Those numbers compare to predictions of +4.0% and +0.5% respectively less than two months ago. Analysts have been cutting their estimates for both the top and bottom lines, yet the stock market has continued to march higher. When the market takes a few days off, the media calls it a "correction" and urges investors to jump in before the next up leg. Stocks are supposed to look ahead. With the Fed getting ready to move away from its aggressive easing policies, stocks will almost certainly run into trouble sooner rather than later. Many of the bulls are now saying that nothing can

derail this rally - even the Fed. Earlier in this hotline, we mentioned the recent high reading on the Investors Intelligence bullish sentiment report. A couple of days ago, the May reading on consumer confidence was released by the Conference Board. It skyrocketed to 76.2 from 68.1 in April. The bulls were pleased to see that consumers are feeling so confident right now. Unfortunately though, high readings on consumer confidence often spells trouble for the stock market. It is really just another indication of the complacency that has taken root on Wall Street.

The economy is not falling apart - far from it. In fact, we expect the economy to improve during the second half of 2013. In the meantime though, investors are going to be faced with a number of disappointing economic reports. A week from tomorrow, the May employment report will be released. Nonfarm payrolls expanded by an average of 152,000 during the past two months. That has been enough to keep the recovery in place - but not strong enough to support a new boom. Stocks have been trading like the economy is taking off to the upside. So far though, the economy has not been cooperating with those expectations. In afternoon trading today, the Dow Jones U.S. Total Market Index is at 17,486.54, up by 80.92(0.5%) from the close a week ago. The S&P 500 is 1,659.25, up by 8.74(0.5%). The Volatility Index (VIX) is at 14.29, up from 14.07 a week ago. The yield on the 10-year Treasury note is at 2.12%, up from 2.02%. The bond market certainly seems to sense that the Fed is getting ready to tap the brakes. Here is a look at the two bearish ETFs that we have been following. The ProShares Short S&P500 ETF (SH) is at $28.76, down by $0.17(0.6%). The ProShares UltraShort S&P500 ETF (SDS) is at $38.72, down by $0.36(0.9%). More next week.

Next hotline updated no later than 7:00 PM. Eastern on Wednesday, June 5, 2013