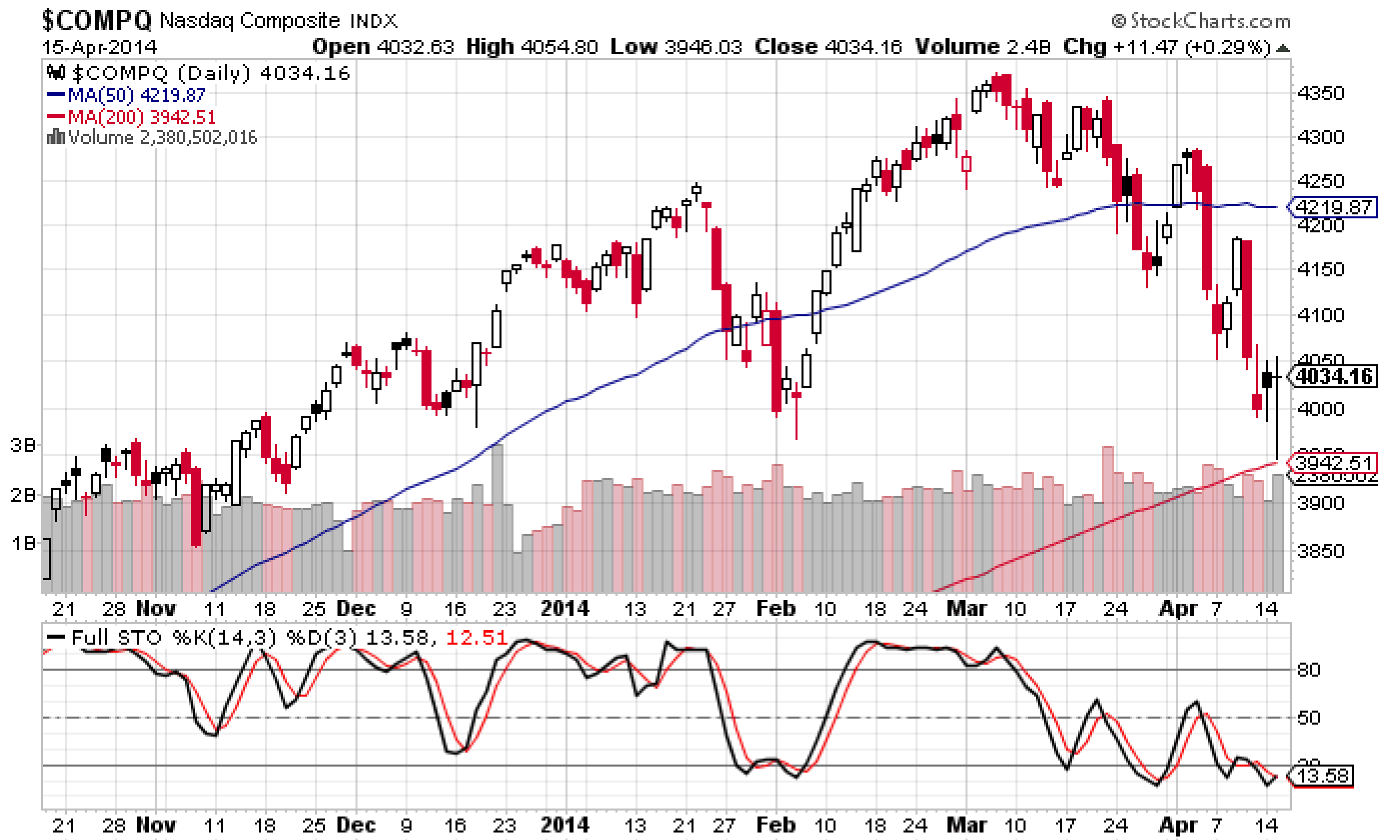
Preparing for a Market Bottom . . . April 15, 2014

The recent market weakness has been tough for investors in fast growing, innovative technology companies. The NASDAQ fell 8.2% from its March high to the low last week.



It seems the collective thinking of the fast money crowd is that multiples got too high and that too much of a good thing is a bad thing. They must not have heard the Mae West quote “Too much of a good things can be wonderful” –eh?

So . . . it seems the "smart money" wants to own slow growing, low innovation companies now. The evidence of the move to "slow" companies vs. "fast" companies can be found in the fact that the S&P 500 – an index of mostly "slow" and old companies – has fallen 0.3% YTD vs. the NASDAQ that has fallen 3.4% as of today's close. The move is actually more dramatic. Have a look at the following table published by 361 Capital displaying the "flip" in performance in 2014 vs. 2013 away from small and tech oriented stocks to slow, large and asset based oriented names.

This flip in returns of 2014 v. 2013 is most interesting...

Asset Class Returns (As of 4/11/14)			
Asset Class	**Ticker**	**2013**	**2014**
Junior Gold Miners	GDXJ	-60.8%	17.8%
Gold Miners	GDX	-54.0%	14.6%
REITs	ICF	-1.7%	11.4%
Mortgage REITs	REM	-2.6%	10.5%
Gold	GLD	-28.3%	9.4%
Preferred Stocks	PFF	-1.0%	7.6%
Emerging Market Bonds	EMB	-7.8%	5.0%
Investment Grade Bonds	LQD	-2.0%	4.1%
Silver	SLV	-36.3%	2.6%
Frontier Markets	FRN	-14.6%	2.5%
US Aggregate Bonds	BND	-2.1%	2.5%
High Yield Bonds	HYG	5.8%	2.5%
Commodities	DBC	-7.6%	2.4%
Emerging Market Equities	EEM	-3.7%	0.1%
US Large Caps	SPY	32.3%	-1.3%
US Small Caps	IWM	38.7%	-4.0%
Biotechs	XBI	48.4%	-4.1%
Consumer Discretionary	XLY	42.7%	-6.6%
Social Media	SOCL	64.0%	-15.6%

(PensionPartners)

As you consider the sell-off in share prices and particularly the impact on Aberdeen companies keep in mind the following quotes from a prominent hedge fund manager – Howard Marks – on how to outperform the market in a piece he recently penned called "**Dare to Be Great II**".

- "The real question is whether you dare to do the things that are necessary in order to be great. **Are you willing to be different, and are you willing to be wrong**? In order to have a chance at great results, you have to be open to being both."
- **"Most great investments begin in discomfort**. The things most people feel good about – investments where the underlying premise is widely accepted, the recent performance has been positive and the outlook is rosy – are unlikely to be available at bargain prices. Rather, bargains are usually found among things that are controversial, that people are pessimistic about, and that have been performing badly of late."
- "**Superior investment results can only stem from a better-than-average ability to figure out when risk-taking will lead to gain and when it will end in loss**. There is no alternative."
- "**Unconventional behavior is the only road to superior investment results**, but it isn't for everyone. In addition to superior skill, successful investing requires the ability to look wrong for a while and survive some mistakes."

We are daring to be great but it can be frustrating when there is panic in the air. That said, i**t is a perfect time to begin an investment in a time of discomfort**. Investment legends are not about buying at market tops –eh?

Aberdeen is now fully invested. We have been able to make some outstanding purchases in recent days. We continue to look for opportunities to rebalance the portfolio.

I have pulled together some recent charts and comments that support the case that we are near a bottom in the market sell-off.

The put buying has been furious lately . . . like other times when the market has made a bottom.

The following chart shows a clear correlation of peaks in the put/call ratio with bottoms in the S&P500 (dotted line). The spike we saw last Friday is consistent with the market making at least a short term bottom this week.

The price volatility for the NASDAQ 100 has also spiked . . . also like other times when the market has made a bottom.

FBN Technical Research

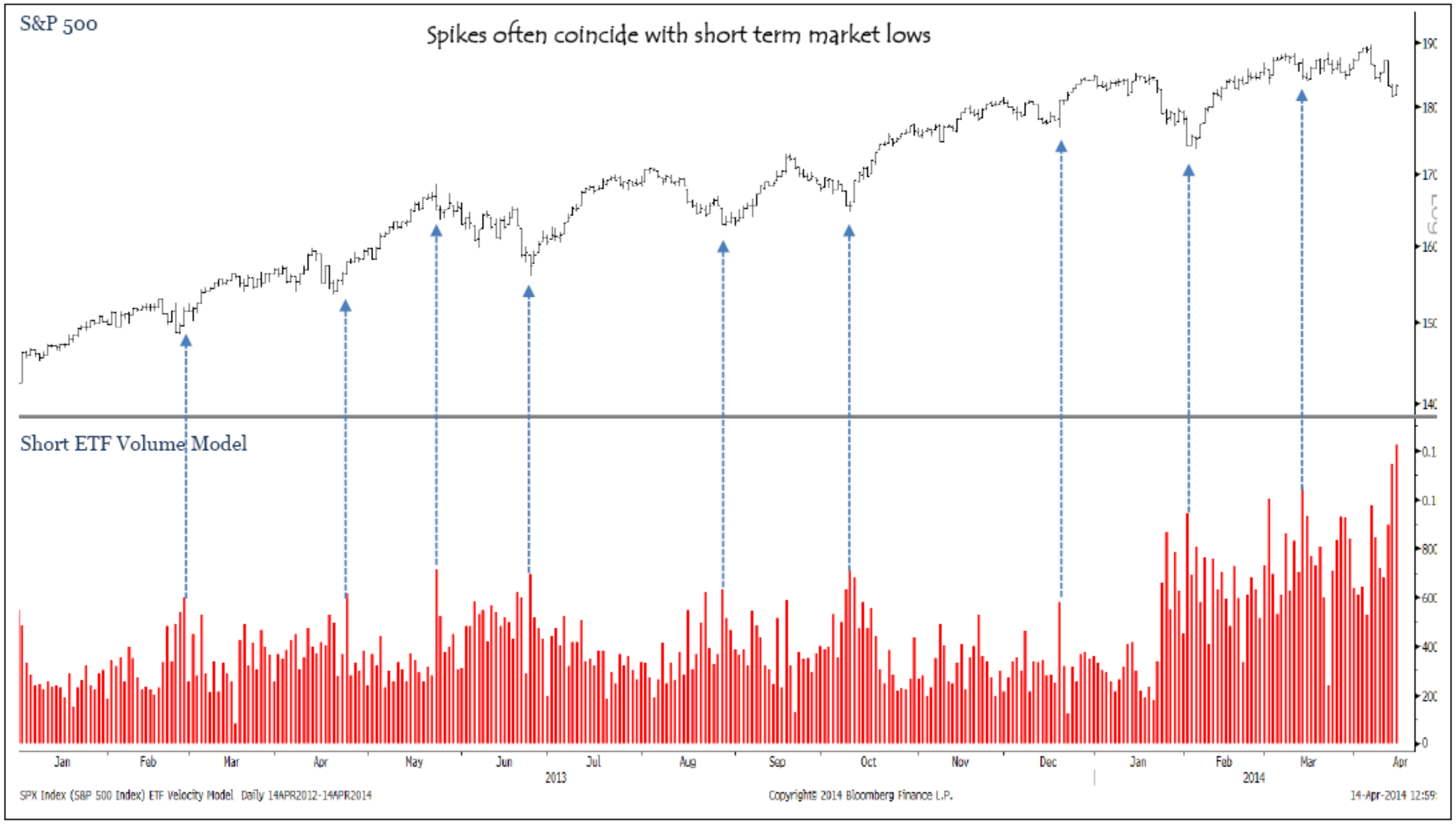
Nasdaq 100 VIX at Levels where Buyers Historically Stepped in

Many of the Bios and High flyers are housed in the Nasdaq 100, thus excess volatility compared to the S&P 500's VIX

Excessive pessimism is evident in the volume of short ETFs . . . also like other times when the market has made a bottom.

Short ETF Volume Suggest a Short Term Market Low

Another way to gauge signs of excessive pessimism, this model attempts to identify when fear is present. This often occurs at short term market lows. Good for a trade rather than a longer term entry.



Source Bloomberg Financial

So . . . what to do? MAN UP!

We have been reviewing our portfolio for candidates for overweighting. We are also looking for opportunities to take some short term losses. These will come in handy later this year to offset gains.

We are investigating additional portfolio candidates. The sell-off has been broadly indiscriminate and produced bargains.

We strongly encourage clients to consider adding capital to their accounts.

Please do not hesitate to contact me with questions.

Best Regards:

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