First Trust

Quarterly Market Overview

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Robert F. Carey, CFA
Chief Market Strategist

Mr. Carey has over a quarter century of experience as an Equity and Fixed-Income Analyst and is a recipient of the Chartered Financial Analyst (CFA) designation. He is a graduate of the University of Illinois at Champaign-Urbana with a B.S. in Physics. He is also a member of the CFA Society of Chicago and the CFA Institute. As Chief Market Strategist, Bob and his staff supervise approximately $89 billion in assets as of 3/31/14. Mr. Carey has appeared throughout the United States and Canada as a guest on television and radio programs. These programs include: Bloomberg TV, CNBC and on Chicago's WBBM Newsradio 780's Noon Business Hour. He has been quoted by several publications, including *The Wall Street Journal, The Wall Street Reporter, Bloomberg News Service, and Registered Rep.*

We invite you to visit Bob's Market Commentary Blog at www.ftportfolios.com for more insight.

Enough with the drama and hyperbole already!

Since our last edition in mid-January, we've seen headlines saying that the stock market is "rigged" and that the U.S. IPO market could be the next "bubble" to contend with. And these two are just a sample of how the media is overdramatizing the state of equity markets these days, in our opinion. With headlines like these, it's easy to see why there are still retail investors skittish about committing capital to the stock market. While such topics are certainly worthy of analysis and discussion, one has to wonder if the added-hype injected into them is truly warranted, or just a byproduct of either some pundit's agenda or today's competitive 24/7, Internet-driven media cycle. Regardless, we believe this trend is getting worse and it's not very constructive.

The accusation that the stock market is rigged comes from a new book by author Michael Lewis titled "Flash Boys: A Wall Street Revolt." Lewis, who has done quite a few interviews about the book, claims to have proof that high-speed traders conceived a way of sending their stock trades to exchanges quicker than institutional and retail investors, thereby increasing their odds of receiving more favorable pricing. As a consequence, stock orders arriving at the exchanges perhaps just milliseconds after those from high-speed traders often stand a greater chance of getting filled at slightly higher prices, suggesting the system is rigged in favor of the high-speed traders. We are not in a position to either support or dispute such claims and we acknowledge that this story is more complex than our condensed overview. What we find particularly interesting about this story, however, is that Lewis reveals that a former Wall Street trader has already successfully devised a process for leveling the playing field for order execution. In fact, this person has reportedly launched a new electronic exchange to compete with the existing exchanges. Investors looking for an edge in the market is nothing new. While the headline is certainly an attention-grabber, it doesn't mean that the average investor should refrain from investing in the stock market. After all, the S&P 500 has posted a cumulative total return of 208.26% so far in the bull market that began on 3/9/09.

With respect to the IPO market approaching bubble territory after a strong 2013, we would like to direct everyone's attention to Renaissance Capital's 2013 U.S. IPO Annual Review, available to the public at its website, where it concluded that the increase in IPO activity was broad-based and valuations were disciplined. Data revealed that 222 IPOs were priced in the U.S. in 2013, up slightly from the 213 priced in 2007, just prior to the financial crisis in 2008. The number of IPOs priced from 2008 through 2012 were as follows: 31 (2008); 63 (2009); 154 (2010); 125 (2011); and 128 (2012). What bubble?

Four things we believe investors should target when formulating a wealth-building investment strategy for the long term

The first thing to acknowledge when setting expectations is that past performance is no guarantee of future results. Once an investor has accepted this reality, consider letting history be your guide. Historical data supports the claim that equities, particularly U.S. stocks, have demonstrated the ability to generate returns that are superior, on average, to most major asset classes over time. For comparative purposes, Ibbotson Associates/Morningstar data shows that, from 1926-2013, the average annual total return for Long-Term U.S. Government bonds was 5.48%. While small-capitalization stocks have outperformed their large-capitalization counterparts since 1926, they also carry a higher degree of risk. Investors should always be cognizant of inflation levels through the years so they can adjust their investment portfolio to keep pace with cost of living increases. Lastly, one of the biggest fears today is that people are living longer and some Americans may not be saving enough for their retirement years and run the risk of outliving their money.

Average Annual Return on Small-Cap Stocks

Source: Ibbotson Associates/ Morningstar (1926-2013)

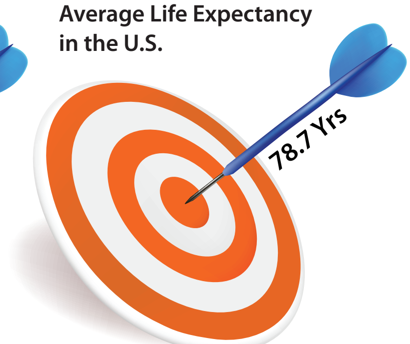
Average Annual Return on Large-Cap Stocks

Source: Ibbotson Associates/ Morningstar (1926-2013)

Average Annual Rate for the Consumer Price Index

Source: Bureau of Labor Statistics

Average Life Expectancy in the U.S.



Source: OECD.org (2011)

Small-Cap Stocks are represented by the fifth market capitalization quintile of stocks on the NYSE for 1926-1981 and the performance of the Dimensional Fund Advisors, U.S. Micro Cap Portfolio thereafter; Large-Cap Stocks are represented by the Standard & Poor's 500, which is an unmanaged group of securities and considered to be representative of the stock market in general. An investment cannot be made directly in an index. Past performance is no guarantee of future results.

Continued

Our take is that the Pros outweigh the Cons for investing in equities in today's climate

Pros

- Interest rates and inflation are still at very low levels.
- The Fed has indicated it may hold rates steady until mid-2015.
- U.S. GDP growth rate expected to rise from 2.1% in '13 to 2.8% in '14. (IMF)
- Nonfarm payrolls up for 42 consecutive months. (Bureau of Labor)
- U.S. companies holding record levels of cash ($ Trillions). (Fed)
- S&P 500 distributing record levels of dividends. (S&P Dow Jones Indices)
- U.S. household net worth hit a record $80.66 trillion in 2013. (Fed)
- U.S. speculative-grade default rate 1.7% (Avg. 4.7%) in Q1'14. (Moody's)
- U.S. home foreclosures down 42 consecutive months. (RealtyTrac/March)
- Home prices up 13.42% in '13. (S&P/Case-Shiller Composite-20 City Index)
- Consumer credit defaults lowest since July 2006. (S&P/Experian/March)
- State tax collections up 16 consecutive quarters. (Rockefeller Institute)
- Europe exited its recession, mitigating some of the drag on global growth.

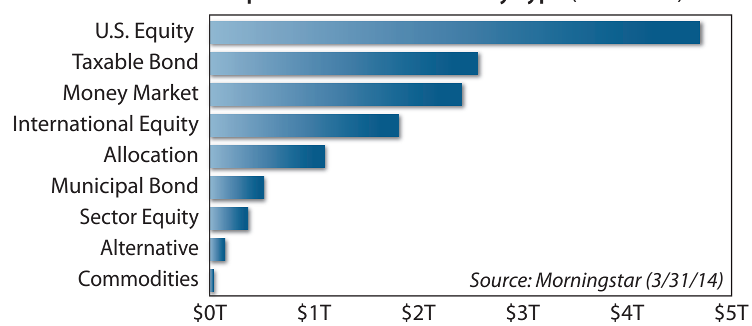
Cons

- Too many people in the U.S. are still unemployed or underemployed.
- Some investors lost trust in Wall Street after the financial crisis in 2008.
- Companies still talking about a lack of guidance from Washington, D.C.
- Corporate America holding a lot of cash overseas waiting for tax reform.
- Uncertainty over what the true costs of the Affordable Care Act will be.
- Small businesses cite too much gov't regulation as top problem. (NFIB.com)
- Only 51.8% of the Dodd-Frank Wall Street Reform and Consumer Protection Act rules have been finalized. It became law in 7/10. (Davis Polk)
- Several wars and geopolitical conflicts playing out around the globe.
- The shrinking and redefining of the middle class.
- Earnings gap between young adults with bachelor's degrees and those without sits at its widest margin in 48 years. (Pew Research)
- The economic recovery has been so slow in coming it doesn't resonate with many Americans.

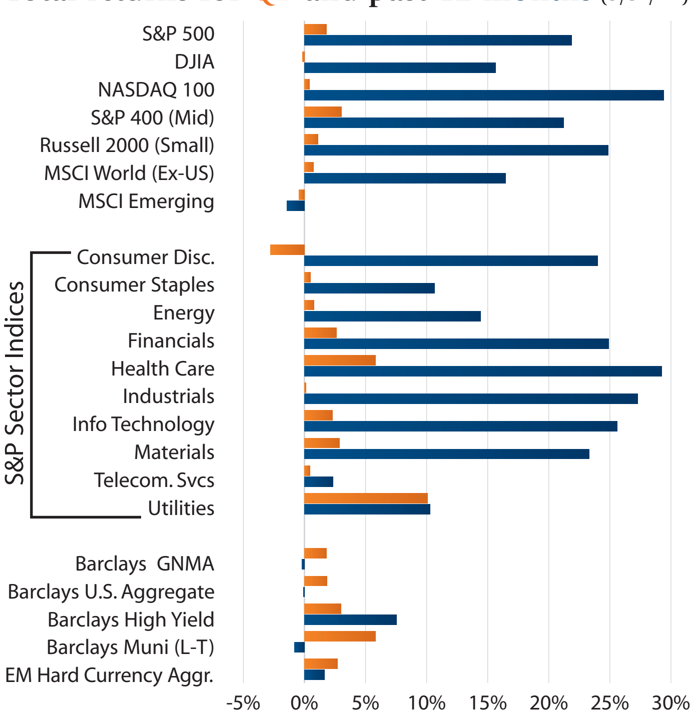
Where investors have their capital allocated in open-end mutual funds...

At the close of Q1'14, the amount of assets invested in U.S. Equity and Sector Equity funds totaled a combined $5.1 trillion, according to data from Morningstar. Another $1.8 trillion was invested in International Equity funds. All in all, equity funds accounted for approximately 61% of total long-term fund assets, which does not include the roughly $2.4 trillion invested in Money Market funds. The asset class that we are monitoring closely is Taxable Bond funds. Total assets in this category stood at $2.6 trillion in Q1'14. While the 127 basis point increase in the yield on the 10-Year Treasury note in 2013 got the attention of bond investors, this group only reported net outflows totaling $20.7 billion for the 12-month period ended 3/14. If interest rates do trend higher moving forward, we will be watching to see if capital shifts from bonds to equities.

Total Assets in Open-End Mutual Funds by Type (In Trillions)



Total returns for *Q1* and past 12 months (3/31/14)



A Look Ahead:

The outlook for earnings (year-over-year comparison in $)...

	Q2'14E	Q2'13A	**Q3'14E**	Q3'13A	**2014E**	2013E
Financials	**5.42**	5.44	**5.39**	5.15	**21.62**	21.07
Information Technology	**9.21**	7.50	**9.59**	8.07	**39.49**	33.58
Health Care	**9.66**	8.19	**9.64**	8.27	**38.82**	32.43
Consumer Staples	**6.32**	5.78	**6.62**	6.17	**25.40**	23.95
Consumer Discretionary	**7.16**	6.35	**7.55**	6.53	**28.78**	25.12
Industrials	**6.97**	6.25	**7.20**	6.52	**27.70**	24.88
Telecom. Services	**3.04**	2.16	**3.05**	2.49	**11.53**	12.31
Energy	**12.03**	11.49	**12.44**	10.26	**48.28**	42.35
Utilities	**2.95**	2.88	**4.44**	4.13	**13.53**	12.15
Materials	**5.09**	3.14	**4.06**	3.38	**18.12**	14.04
S&P 500 Index	**29.64**	26.36	**30.67**	26.92	**120.04**	107.31
S&P 400 Index (Mid-Cap)	**18.13**	15.00	**19.34**	15.60	**73.49**	60.00
S&P 600 Index (Small-Cap)	**8.48**	6.32	**9.21**	6.28	**34.32**	25.33

Source: Standard & Poor's (3/31/14)