ACM
ALJIAN CAPITAL MANAGEMENT

April 1, 2014

Hello Friends,

The first quarter of the year is in the books and the market averages are just about at the same level as when the year began. Dow is down 0.72%, S&P 500 up 1.28% and the Nasdaq is up 0.54%. I've been reflecting on things lately and here is my market manifesto for the remainder of the year.

The discipline that I'm trying to follow is the Point and Figure analysis provided by Dorsey Wright. One of the basics of this strategy is to determine if a particular stock is in a bullish or bearish price pattern. The method to make this determination is quite simple and Dorsey Wright then applies the bullish or bearish results to each and every stock traded on the New York Stock Exchange, or 1867 different stocks. The results are then divided into a bullish group and a bearish group. At the present time, 64% of all NYSE stocks meet the definition of the Dorsey Wright bullish price pattern.

History suggests that when this figure surpasses 70% the market has become richly valued and it is time to begin taking some cash out of the market. And if the bullish percent moved to 75% or 80%, you would become even more conservative and risk adverse. Rarely has the market ever gone above 90%. On the other side of the coin, when the figure is at 30% or below, it is time to become more aggressive and accumulate new positions. It seems like the number has been stuck at 64% for quite some time and I would be excited to see the figure move to 66%, 68%, then 70%.

After considering the bullish percent ratio, there are very strong seasonal trends for the market averages. The best six month cycle is November to April and the worst six month cycle is May through October. There is a well-known saying on Wall St. to "Sell in May and go away".

The market was down for the month of January. According to the Yale Hirsch stock market almanac, when the market is down in January, since 1950, 89% of the time it has been down for the year.

The worst year for the four year presidential cycle is the midterm election year. Again, according to Yale Hirsch, the market often makes a low in the midterm election year, then rallies into the pre-election and election years. The market made a low on 2/5/14 and it has yet to be determined if this will stand as the low for 2014.

The IPO pipeline is fatter than ever and most of the talking heads coming onto CNBC to express their opinions are positive about the market. Both have negative implications.

On this first day of April, I prefer to stay invested in all of my existing positions despite the negative implications of the seasonal trend, January barometer, and election cycle. My view is that if there is a decline, it will be shallow and something that most of us can take in stride while anticipating a strong market in 2015 and 2016. What would cause me to change my mind is if the Dorsey Wright bullish percent figure went to 70% or higher.

I'm available almost every day if you would like to call or meet to discuss investment strategy or to review your investment objectives and risk tolerance. Just let me know. Thanks again.

Sincerely,

Jim Aljian

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