FPS Financial, Inc.
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919 Old Highway 8 NW
Suite 400
New Brighton, MN 55112

P 651.633.2689
F 651.633.2847
www.fpsfinancial.net

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Third Quarter 2014:
When Will Stock Market's Winning Streak End?

Dear Investor,

You will have to forgive me if my recent quarterly updates are beginning to sound like a broken record. But that's simply because the stock market has continued to rise without any significant pullback. According to BTN Research, the S&P 500 Index[1] has now gone nearly three years (1,093 days) without a correction of 10% or more. That's the fourth longest streak in the past 50 years.

Of course, eventually all good things come to an end, and this applies to stock market rallies. Eventually, we will have a decline of 10% or more. Does that mean that stocks are poised for an imminent selloff? Neither I nor anyone else can say for sure. As Charlie Munger, the 90-year old co-chairman of Berkshire Hathaway said in a recent *Wall Street Journal* interview, "knowing what you don't know is more useful than being brilliant."

In the meantime, some indicators are flashing signs of potentially stronger economic growth to come, which could mean stocks have more room to run. These include:

- **Lower prices at the pump.** U.S. retail gasoline prices declined significantly during the third quarter. In fact, Gasbuddy.com estimates that lower prices in September reduced Americans' gasoline bill by $2.25 billion alone compared to September 2013. Several states, Minnesota included, could see prices fall below $3 a gallon by Christmas. These prices will put money back in consumers' pockets just in time for the holiday shopping season.

- **Solid GDP numbers.** GDP growth for the second quarter was revised upward to an annual rate of 4.6 percent, a marked improvement from the first quarter's 2.1 percent decline. The outlook for the third quarter looks promising at this point.

- **Muted consumer and investor confidence.** Excessive confidence is often a contrarian indicator, so the fact that people seem only mildly enthused about the economy and stocks may be a good sign. Unlike the periods that immediately preceded the bursting of the technology stock bubble and the real estate bubble, measures of consumer confidence and investor sentiment, while high, are at more reasonable levels.

No matter what happens in the near term, there is no question in my mind that—whether it's Mideast turmoil, rising interest rates, or some hidden risk lurking beneath the surface—eventually the stock market's mettle will be tested.

As long as you are mentally prepared and have a suitable asset allocation plan in place, such selloffs should not be cause for major concern. That said, if you feel that you are not prepared to weather a stock market pullback, or if there have been any major changes in your financial circumstances, please get in touch to review your investment strategy.

Sincerely,

Mike Ovshak
CFP®

[1] The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. All indices are unmanaged and investors cannot invest directly into an index. Past performance is not indicative of future results. Diversification does not assure a profit or protect against a loss in declining markets.