Manager Commentary

May/June 2014 – U.S. Tactical Core Strategy

The Tactical Core U.S. portfolio maintains a mostly defensive position moving into June with an overall allocation of 25% large cap equities and 75% treasuries. The Good Harbor Tactical Core U.S. portfolio gained 0.17% net-of-fees in May versus a gain of 2.3% for the S&P 500 Total Return Index.

Mixed readings across all the model input categories were sufficient enough to maintain the month-end tranche in a partially defensive allocation. Positive moves in economic measures were offset by negative moves in the yield curve dynamics, while the momentum measures were mixed.

Momentum: Equity momentum generally improved across the period with small cap returning to positive territory. However, this was accompanied by increasing Treasury momentum as well; with both the short-term (5-Yr) measure and the longer dated (10-Yr) moving higher.

Yield Curve: Rates dropped across the curve with the 10-year constant maturity rate falling nineteen basis points to 2.48%. Slope measures flattened as well.

Economic: Model credit spreads continued to tighten modestly across the period. The VIX continued to decline as well, ending the month at 11.40. The VIX futures complex was also slightly lower. The economic level and growth rate both registered improvements.

As always, this modestly negative outlook on U.S. equities based on our tactical model does not mean stocks are guaranteed to fall over the coming weeks. There are many economic and geopolitical factors that can certainly disrupt the equity markets in either direction with little to no warning. However, our research suggests when we see the kind of moves we're seeing in our risk premium measures, it is better to maintain reduced equity risk exposure. This has been our process over the last ten plus years and it is the consistent application of this process that we believe is most critical to implementing a sound investment strategy.

Good Harbor Financial