

[Martone Capital Management: Weekly Investment Commentary \(4/24/2013\)](#)

After getting close to some new records the week before, stocks experienced a downturn last week as investors reacted to negative economic news and to some disappointing earnings reports.

Last week's economic data continued to disappoint, with some regional manufacturing reports showing signs of weakness. Additionally, on Thursday, the Conference Board's index of leading economic indicators fell for the first time since last August, suggesting that the slowdown is likely to continue. While we remain confident that the US economy will continue to grow in 2013, the road ahead will be a tougher one, especially since we will continue to see the effects of the sequester-related spending cuts. We are also starting to see the effects of slower growth reflected in corporate earnings - last week, both Bank of America and IBM reported some disappointing results, which negatively impacted the markets. Even for those companies that are showing improvements in earnings, in most cases earnings growth is coming from cost containment rather than from improved revenues and profits.

For much of the past few months, stock market volatility has been relatively muted, but we are finally starting to see that change. The horrific events in Boston contributed to this trend, but even before the bombings occurred investors were reacting to a weak first quarter gross domestic product report from China and signs of slower growth in the United States.

In response to signs of slower growth, investors are starting to become more defensively positioned and are growing more nervous about the state of the markets. One way this can be measured is by looking at the VIX Index, a gauge of stock market volatility that is also known as the "fear index." Until recently, the VIX had been trading close to a multi-year low of 11, signaling widespread complacency. Last week, however, the VIX spiked to 18, which is closer to its historical average.

In the present environment, we would continue to suggest that investors stick with their current equity positions while looking for opportunities to take a more defensive portfolio stance heading into the summer months.

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