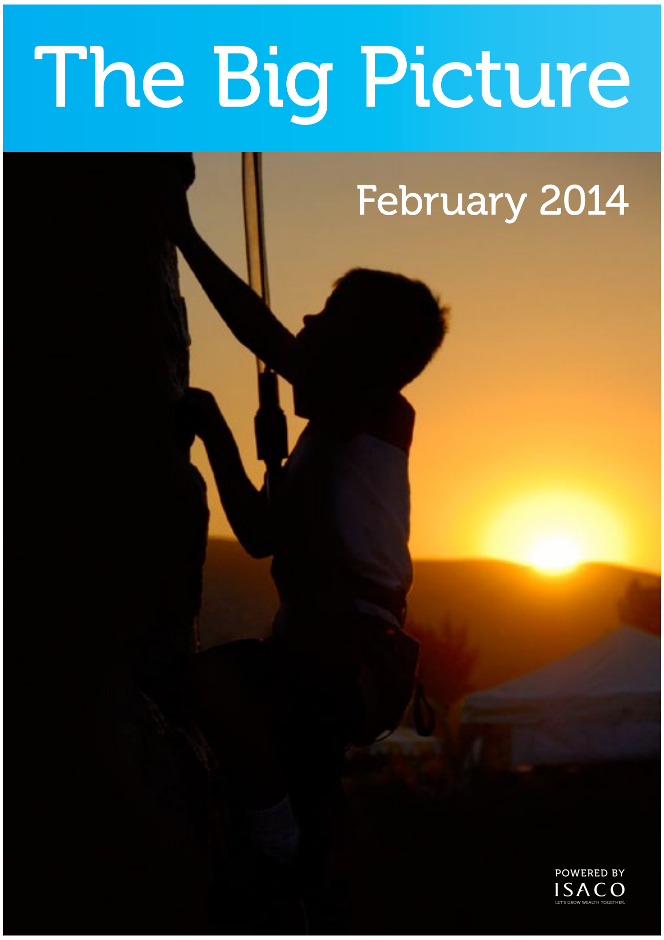
The Big Picture

Daily Market Updates focus on the short-term activity of the market and *The Big Picture* focuses on the long-term. *The Big Picture* contains more information than the *Daily Market Updates* and is published once per month. You normally receive one of these on the first Friday of a new calendar month. Just like the *Daily Market Updates*, we suggest you aim to make it a habit to read the information contained within *The Big Picture* every month.



Each edition of *The Big Picture* has a cover photo and each month is clearly dated for reference.
It also contains the following sections:

- The Big Picture
- Market Indexes
- Our Portfolio
- Our Opinion of the Market's Health
- Summary

The Big Picture

In this section, we share our take on the market's behaviour over the previous month and tell you what we believe it means. You discover whether we liked the action or not and we explain why we thought the action was good, neutral or not good.

The Big Picture | February 2014 Edition

Our opinion of the market's health:
HEALTHY

February 2014

The Big Picture

January was disappointing. It's normally one of those months where investors experience robust gains however during the period our portfolio fell by 0.7%.[1] The only silver lining was the fact they we outperformed the NASDAQ Composite and the FTSE 100 which both indexes made a loss of 3%. Normally we outperform in up markets and underperform in down markets and so beating our benchmarks on the downside has a nice feel about it.

Stephen Sutherland.
ISACO's Chief Investment Strategist and author of *How to Make Money in ISAs and SIPPs*.

How do you know if the market is acting right?
The way we use to check if the market is behaving as it should is to look at the trading action (price and volume activity) of institutional investors. Why do we do this? The stock market is about six month forward looking and its daily activity is the consensus conclusion whether institutional investors like or don't like what they see happening down the road. By watching what the big players are doing (buying or selling) each and every day, it can provide essential clues to which way the market is likely to head

[1] December 31st 2013 – January 29th 2014 ISACO investment performance verified by Independent Executives Ltd.

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Our aim is to try to pass on our knowledge and experience of the market to you in easy to understand language. Each month we will share our thoughts and ideas, including key lessons about the market and show you in easy to read charts exactly what the market has been doing, what that behavior means, and what we believe is likely to happen because of that behavior.


The Big Picture | February 2014 Edition

NASDAQ Composite

Chart Courtesy of MarketSmith

It's best to try to get 'in sync'
Institutional investors control approximately 75% of the market's future direction, and so it's probably a good idea to try to keep 'in sync' with them. If you don't, it feels like trying to swim against a strong current. When you don't get in sync, you often get hurt financially and that's why we like to see if the 800-pound gorilla investors are buying, because when they do, it strengthens the market. However, if they are selling, it weakens it. The other thing we like to keep a close eye on is the behaviour of leading stocks.

If the markets best stocks are acting weaker than the general averages, it's negative. However when leading stocks are outperforming the market, it's positive. When leading equities are underperforming, the market is more likely to head lower, and if the markets premier stocks are outperforming, the market is likely to head higher. The good news is that right now, even though we are in a correction phase, leading stocks are acting well.

Bull market? Bear market? Where are we?
Take a look at this five year chart of the NASDAQ Composite and you'll see that even though we are currently in a retracement, the bull market that began in March 2009 (Point A) is almost five years old and for now remains intact.

Since the uptrend began, the NASDAQ Composite has made a 235.5% return. However, to make that gain it has had to experience three challenging corrections. The first (Point B) occurred from April to November 2010. The second (Point C) is a correction that started in May 2011 and ended in January 2012. The third (Point D), began in late March 2012 and finished March 2013. Right now the market is experiencing another pullback which began 23rd January (Point E).

"The good news is that right now, even though we are in a correction phase, leading stocks are acting well."

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The Big Picture | February 2014 Edition

NASDAQ Composite

Chart Courtesy of MarketSmith

Headwinds at 4200 on the NASDAQ
Take a look at this 20-year chart of the NASDAQ Composite and you can see that between July and September of the year 2000, the US technology index had trouble getting back above the 4200 price level (Point K).

This was first pointed out in last month's edition of The Big Picture. In January's publication when talking about the NASDAQ, we brought your attention to the fact that the US technology index did have resistance at the 4200 level and said:

"We therefore think that it will probably come up against a headwind very soon."

We don't always get our market calls right but with this one, were we right?

Gauging Stock Market Direction
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In this section you'll also find charts that give you the opportunity to further your investment education and help you understand the text better. You'll also discover our investment outlook, where we share whether we believe we are in a bull market or a bear market and how long we've been in such a market. You'll also discover what events over the last four weeks have caught our attention and what they mean to you as an investor.

noticed that strong funds tend to get stronger and weak funds tend to get weaker.

	1 Week Return %	YTD Return %	3 Month Return %	Performance analysis
NASDAQ Composite	-4.5%	-3%	2.5%	N/A
FTSE 100	-4.1%	-3%	-3.4%	N/A
Our 'total' portfolio	-2.6%	-0.7%	2.1%	Outperformance
Fund A	-2.47%	1.05%	5.83%	Outperformance
Fund B	-2.98%	-0.73%	2.30%	Outperformance
Fund C	-2.36%	-2.1%	0.11%	Outperformance
Fund D	-3.34%	-1.24%	0.76%	Outperformance
Fund E	-3.48%	-2.55%	-1.89%	Outperformance

*Performance data collected January 30th 2014

We like to remind ourselves that by keeping a close eye on short-term periods, it can help you act quickly should you notice that one or more of your funds are behaving poorly. The time periods that we like to measure in the short term are weekly, monthly and three monthly. To know how well a fund has recently been performing, we simply compare their returns to the NASDAQ Composite and the FTSE 100. Ideally we like to see each fund we own outperforming the FTSE 100 in all three time frames and if it outperforms the NASDAQ, we see it as a bonus.

Our chief aim – beating the market

Even though we do try to beat the NASDAQ, our real goal is to outperform the FTSE 100. This means that the most important question that we need an answer on a daily basis is: how have we been performing versus the FTSE 100?

As you saw in the table, the good news is that our 'total' portfolio has outperformed the FTSE 100 over weekly, monthly and 3-monthly time frames.. This means all the funds we currently own have recently been demonstrating outperformance.

"To know how well a fund has recently been performing, we simply compare their returns to the NASDAQ Composite and the FTSE 100."

Because we track money flows around the world, we analyse the funds we own to help us determine which ones are in the money flow. We want to know which ones are performing and which ones aren't. In our opinion, the short-term performance of a fund is very important. It's vital because we've noticed that strong funds tend to get stronger and weak funds tend to get weaker. By keeping a close eye on short-term periods, it can help you act quickly should you notice that your fund is behaving poorly. The short-term periods of time that we like to measure are weekly, monthly and three monthly. We like to compare the returns versus the short-term performance of the NASDAQ Composite and the FTSE 100.

Market Indexes

Here you get a detailed table showing you how each main index has performed during the month and whether the behavior was good, neutral or not good.

Market Indexes

Index	Price Change for the Month	Volume Change for the Month	What this Means
NASDAQ COMPOSITE	-1.74%	+29.2%	PROFESSIONAL DISTRIBUTION
S&P 500	-3.56%	+10.5%	PROFESSIONAL DISTRIBUTION
S&P 600	-3.91%	+18.5%	PROFESSIONAL DISTRIBUTION
DJIA	-5.30%	+10.5%	PROFESSIONAL DISTRIBUTION

Our Portfolio

This next section called 'Our Portfolio' is self explanatory and mirrors the information contained in the same section in your *Daily Market Updates*.

Our Portfolio

On Saturday 1st February 2014 we made a switch. When the switch order is settled, we expect our portfolio to look something similar to this:

Name of Fund Owned	ISIN number	Portfolio Weighting
CLASSIFIED	CLASSIFIED	26.42%
CLASSIFIED	CLASSIFIED	25.05%
CLASSIFIED	CLASSIFIED	18.79%
CLASSIFIED	CLASSIFIED	6.70%
CLASSIFIED	CLASSIFIED	6.21%
CLASSIFIED	CLASSIFIED	16.82%

We start by reminding you 'when' we made the last switch in our portfolio, together with an explanation of 'why' we made the switch. Below this, we offer a link to a full breakdown of our ISA/SIPP portfolio and below this, a table that shows the funds we currently own, the price we purchased them, the date purchased, the current gain/loss %, the fund's unique ISIN number, and the fund's weighting in our portfolio

Our Opinion of the Market's Health

In this section we share with you our current stance on the market and give a brief summary of what happened each week during the month.

Summary

We conclude with a summary to help drill home key points. This is handy to view when you don't have the time to read the full update in more detail.

Our Opinion of the Market's Health

Based on our market analysis, the market appears healthy. Below is a brief summary of how the market acted each week for the month of January. As always, we will concentrate on the NASDAQ Composite (the market's leading index) and the S&P 600 (the market's second leading index), as their action carries much more weight than the S&P 500 and the Dow.

Week Commencing Monday 30th December

For the week the NASDAQ pulled back 0.59%. The S&P 600 lost 0.75%.

The NASDAQ paused for breath helping it to create a very tight one week handle (Point B). Handles are bullish and often form before breakout moves to the upside. Ditto the S&P 600 (Point C).

Week Commencing Monday 6th January

For the week the NASDAQ gained 1.03%. The S&P 600 ended the week almost flat with a slight loss of 0.04%.

After a one week pause to help catch its breath, the NASDAQ rebounded and volume for the week was above its weekly average which is bullish (Point B).

The 600 didn't act as well as the NASDAQ however we did notice a 2-week bullish handle that the small cap index has now formed (Point C). We like handles because they often appear just before a breakout move to the upside.

Week Commencing Monday 13th January

For the week the NASDAQ gained 1.03%. The S&P 600 remained unchanged.

Although the NASDAQ started the week on a bad note it was good to see it pulling out all the stops and ending the week close to its highs, giving us a bullish reversal (Point C).

The S&P 600 ended the session flat but it was good to see the big players buying stock as it came down and hit its 50 day moving average (Point D).

Week Commencing Monday 20th January

For the week the NASDAQ lost 1.65%. The S&P 600 dropped 1.88%. The NASDAQ Composite managed to end the week above its 50 day moving average which is always a good sign (Point E). The S&P 600 unfortunately ended the week below its 50 day (Point F). Although both volume levels came in on the tame side we must remember volume levels were lower than normal due to the shortened trading week.

Week Commencing Monday 27th January

For the week the NASDAQ lost 0.59%. The S&P 600 dropped 1.22%.

For the second week running the NASDAQ Composite finished the week above its all important 50 day moving average (Point C). The S&P 600 once again ended the week below this important level (Point D).

Summary

Here's a summary of this month's edition:

- The market is currently in a correction phase.
- We see this correction as a healthy bull market retracement.
- ISACO's average annual return over last 5 years[*]: 14.5%.
- On 1st February 2014, we exited out of our Japanese fund into cash.

[*] December 31st 2008 – December 31st 2013 ISACO investment performance verified by Independent Executives Ltd.

Important Information

The value of the fund and the income from it can go down as well as up so you may get back less than you invested. If your fund invests in overseas markets, changes in currency exchange rates may affect the value of your investment. If your fund invests in small and emerging markets, these can be more volatile than other more developed markets. Past performance is not a guide to future returns.

From all of us here at ISACO we hope you enjoy the month of February. ISACO would like you to know that if you are ever unsure about anything we have said or you have any suggestions to help us improve the overall service we provide, please get in touch as we'd love to talk to you and help you in any way we can.

Our aim continues to provide you with information that will help you make better informed investment decisions.

Your friend,

Stephen Sutherland.
Chief Investment Strategist and author of *How to Make Money in ISAs and SIPPs*

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