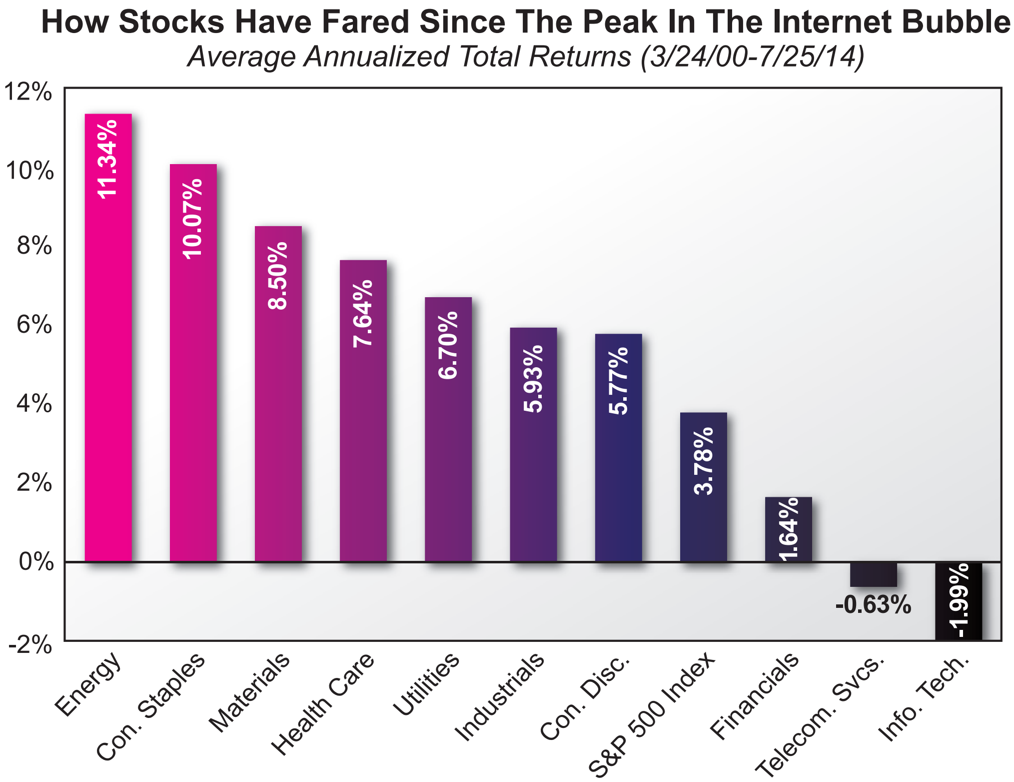
2 Natural Resource Sectors Have Kept Pace With 2 Defensive Sectors Since 3/24/00



Source: Bloomberg. Past performance is no guarantee of future results.

View from the Observation Deck

1. Today's blog post is an update of one we did in November 2013. That post discussed how buy-and-hold equity investors could potentially mitigate market risk over time and capture upside by pairing two defensive sectors.
2. The two defensive sectors featured were Consumer Staples and Health Care. (Click here to view previous post from 11/5/13.) As indicated in today's chart, these sectors have performed relatively well since 3/24/00.
3. What makes this particular time period (3/24/00-7/25/14) intriguing to us is that it begins with the S&P 500 hitting an all-time high during the Internet Revolution. The period that followed was called "The Lost Decade."
4. From 3/24/00-7/25/14, equity investors endured two punishing bear markets (3/24/00-10/9/02 & 10/9/07-3/9/09) and numerous headwinds, such as the sovereign debt crisis in Europe.
5. While we know that defensive sectors have a history of weathering tough markets better than their cyclical counterparts, the energy and materials sectors have shined as well, on a relative basis, since 3/24/00.
6. Year-to-date through 7/25, both Energy (+13.07%) and Materials (+9.72%) ranked in the top five sectors, on a total return basis. The outlook for both is encouraging, in our opinion.
7. Bloomberg's 2014 and 2015 earnings growth rate estimates for the S&P 500 Energy Index were 9.99% and 8.11%, respectively, as of 7/28, compared to 9.31% and 11.17%, respectively, for the S&P 500.
8. Bloomberg's 2014 and 2015 earnings growth rate estimates for the S&P 500 Materials Index were 6.77% and 19.92%, respectively, as of 7/28.
9. The longer-term prospects for stronger global GDP growth suggests that a 50/50 split between a portfolio of energy stocks and a portfolio of materials stocks is worth consideration, in our opinion.