'Inside Cenacle'

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CENACLE CAPITAL MANAGEMENT

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Dear Clients and Friends,

Do you know what makes a "market"? A market is made by two or more people coming together and agreeing upon a set of conditions, such as price, quality and delivery date. The same rules apply for tomato's, chocolate bars, automobiles and stocks.

In my 30+ years of trading at the Chicago Board Options Exchange, there were hundreds of traders in the pit shouting and waving their arms, while thousands of investors, speculators, pension managers simultaneously used brokers to haggled over price and quantity between 8:30 AM and 3:15 PM CST. Every person had a different opinion on the ultimate outcome of the trade.

Each transaction created something called ***price discovery***. As traders we became experts in posturing, acting, shouting, whining, teasing, swearing, punching, biting, faking and bluffing until we made a trade. But you didn't know the outcome until after you made it.

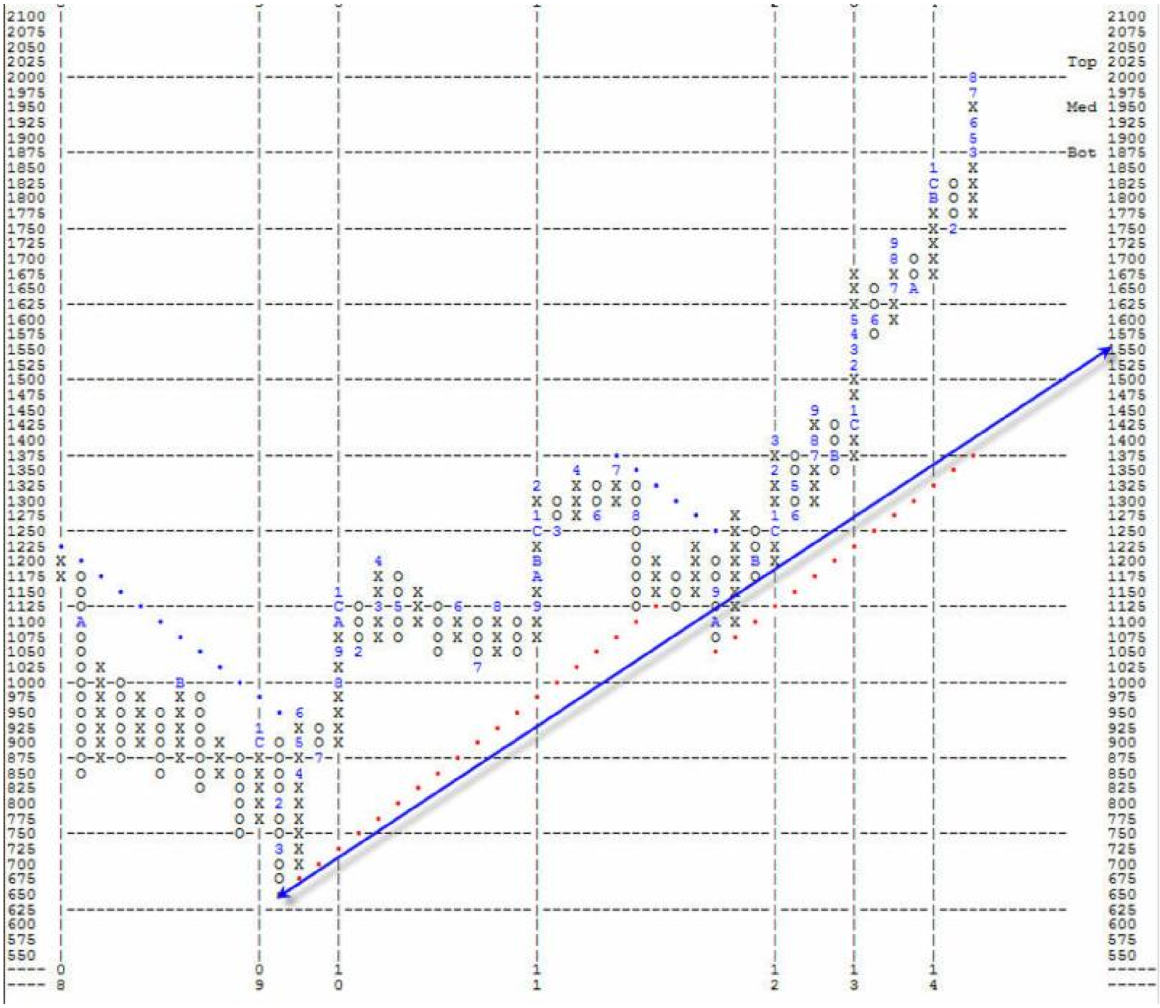
Similarly, we are in the same situation today. Is the market overbought or oversold? Are we on the edge of an economic abyss with a Fed induced jobless recovery; or are we in the midst of a new bull market that began in the depths of 2009 *Great Recession*?

The answer is: Nobody knows for sure. Actually, a more correct answer is that it doesn't matter, because the market is rigged to go up.

Since 1926, the average time from a major market top through the subsequent declining bottom and back up to a full recovery (with dividends reinvested and adjusted for inflation) is about 40 months.

This is especially important for people who are preparing for retirement, because if you were to set aside about 2 years worth of living expenses under your mattress the day before the stock market imploded, you've already covered the lion's share of historical outcomes since 1926.

See chart below: S&P 500 since 2008



Regarding the next 5 years, opinions vary widely among market professionals.

"... Even with these conservative assumptions, in five years, earnings will be about $135 giving a price range for the S&P 500 (with a P/E between 20 to 22) between about 2700 to 3000. From the current S&P 500 level near 1950, including dividends, this implies about a 10% total annualized return in the next five years."

Jim Paulsen, Wells Capital Management, "Economic and Market Perspective,"July 10, 2014

and CNN reported that "Yale Economist Robert Shiller created a metric that compares stock prices with corporate profits. The metric recently climbed above 25. That level has only been surpassed three times since 1881: 1929, 1999 and 2007. Steep market tumbles followed each instance, including the bursting of the dotcom bubble in the early 2000's. The Nasdaq still hasn't fully recovered from that meltdown."

But none of this means it's time to sell everything. Shiller notes that his gauge is a "very imprecise timing indicator" and said the market could "remain at these valuations for years." (1)

And those differences of opinion, my dear friend, is what makes a market.

Conclusion
There's always a "tug of war" going on in the market. Technology shares up, while Steel stocks decline. US Dollar up, gold and silver down. Interest rates increase, Utility stocks decline.

It's my experience that when a majority of opinion believes "things are different this time"; or when the news media is interviewing "regular" people making vast fortunes in real estate, internet stocks or gold, that the market is ready to take the stockholders to the wood shed for a beating.

The market's pendulum doesn't swing between **fear and greed** as commonly believed. It trades between **fear and envy**. It's envy of another's good fortune as you watch them trade internet stocks from the comfort of their own home, while you bust your back working a 9 to 5 job.

It's envy of another's good fortune when your friend becomes a real estate mogul from leveraging a home equity loan, just by attending a free "plate licking" seminar at a nice hotel. Don't become envious of another's good fortune.

We are not at extreme levels in the market. I personally don't see a "bubble mentality" or "get rich quick" scheme touted in the evening news or in conversations with friends.

Until that time, market declines will be a short lived and serve as a much needed pause; much like a car with a stick-shift transmission as the driver steps on the clutch before shifting into a higher gear.

How Can I Do Better?
For our relationship to be more genuinely satisfying to you, what is the one thing I am not currently doing for you that you most wish I would do? And is there one thing I do-that I seem to take as a matter of course-which you would prefer I not do?

Please know that I ask these things for one reason only: to serve you better, as you would wish to be served. In just that sense, please be as candid as you can possibly be in an email to info@cenaclecapital.com or call 847.686.4800 and leave a message. If it makes you feel better, send an anonymous letter to our mailing address below.

If these questions miss the point, please tell me what you wish I had asked you. Thank you for taking the time to consider these questions, and to respond as you think best.

If you would like to forward this newsletter to a friend or family member, please click on the ***Forward this email*** link below. Our business runs on referrals and introductions.

We really appreciate your business and value you as a client or subscriber.

Sincerely,

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Footnotes:
(1) http://money.cnn.com/2014/08/19/investing/market-bubble-warnings/

Please contact Cenacle Capital Management, LLC if there are any changes in your financial situation or investment objectives, or if you wish to impose,add or modify any reasonable restrictions to the management of your account. Our current disclosure statement is set forth on Part II of Form ADV and is available for your review upon request.

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