

SARA-BAY FINANCIAL CORP.

October 14, 2014

Market Update

This short note is just to touch base with you, since the market has been falling with no apparent reason. This comes on the heels of a long and dull 2014, and after a very good 2013. Last month, September 3rd to be exact, we sent out a letter titled, “When the Correction Comes – It Will be Opportunity!” That correction is now occurring. The peak price in the S&P 500 was touched on September 19th, and of late has been dropping a little faster.

Corrections in long-term bull markets are normal - always fearful, but normal. It is not uncommon for a 10% to 15% drop in prices to come along every year and a half or so. Since 2009, there have been two drops from the highs in excess of 15%. Afterward, the stock market resumed its upward trend.

Since our mid-September peak, the S&P has dropped a little over 7%, while the NASDAQ is down over 8½%. If prices continue to go lower, the news media will drag out the perennial bears and parade them across the TV screen to expound their theories. Yesterday after the market closed, Bloomberg had a commentator discussing the market and pointing to a board that said, “Small stocks come unglued.” Television and newspaper headlines almost never do anything to assist us with our investment strategies. To the contrary, they typically exacerbate any short-term problems that exist.

Corrections in bull markets are sharp and fast, and they come out of nowhere. When prices begin to stall, as they have for most of this year, investors become nervous. This is especially true after the sharp increase in prices we experienced last year. They sell simply because prices start to drop and they do not see how it is ever going to end. We must always be vigilant of those companies in our portfolios which are underperforming due to problems unique to them, but when the huge majority of stocks are falling together, it does not mean there is a specific problem with our companies. We plan to add another stock or two to our portfolios in the near future.

There is a very positive upside to the occupation in which I have been engaged for these last 35 plus years. It has been the ability to observe people’s behavior as it pertains to investing. Of the many people who chose to make their own investment decisions, there are only a handful who have been consistently profitable. These are the people who show good judgment, and who keep focused on the fundamentals that have proven successful over time. They are able to divorce themselves from all the other noise.

As by now you have surmised, there is no way that this current correction changes our long-term outlook that we are in a secular bull market that we believe will continue for years. We think all the ingredients are in place and that we will see much higher prices as earnings and cash flows continue to increase.

Sincerely,



J. Michael Hard



Benjamin M. Hard



Andrew M. Hard