Below is a snapshot of last week's market performance and what to watch in the week ahead from Chadd Mason, Cabana CEO and co-founder.

True to form, equity markets have begun the process of bouncing from oversold conditions, which developed during the October sell-off. I discussed last week the importance of stock indices regaining their respective 200-day moving averages. Since then, I have received questions from investors about the importance of this. In short, the 50- and 200-day moving averages serve as lines of technical support for many large institutional traders. Whether there is some magic in these particular numbers, or it has become a self-fulfilling prophecy as a result of herd mentality, matters not. What does matter is that many program traders use these numbers to determine the health of the market. In its simplest form, a break of an index's 50-day moving average serves as a caution that its upward trend may be reversing and profits should be taken. A break in the 200-day moving average is considered more serious and strong evidence that the bullish cycle in the index (or stock) is over. Suffice to say these perceptions result in selling of the position by investors, which only serves to compound the drop in the index. This dynamic happens over and over in markets and is just part of the asset allocation process. What *is* important is if "smart money" (whatever that is) senses an opportunity and steps in to buy the dip. This phenomena evidences confidence in the underlying market and suggest a recovery is possible over the long term. Alternatively, when "smart money" buys the dip and immediately sells the bounce in price, it is evidence of a lack of confidence in the underlying market and a desire to sell into any strength. In essence, investors are taking advantage of any opportunity to get out while they still can. I have watched this play out over the past week and remain concerned that the latter is occurring. Investors appear to be selling into the bounce we saw last week. I was hopeful that major indices would recapture their 200-day moving average by ending the week above it. The S&P 500 and Dow were able to do so and hold it, but the Nasdaq and Russell 2000 Small Cap Index did not. The Nasdaq and Russell 2000 are typically leaders on the way up and on the way down. Right now they are leading on the way down. Defensive sectors and bonds are outperforming in the face of these conditions. We are happily overweight these assets in our portfolios. Seasonality is in our favor, but it otherwise does not look good for risk assets. We remain disciplined and are cautiously bullish with a majority of our money in defensive equity positions to guard against further declines, while allowing for participation in upside should conditions improve.

Last week's market commentary is available for download here.

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