



INVESTMENT SERVICES
of America, Inc.

Market Commentary

August 2014

Getting Help From E

On August 27th, the S&P 500 closed slightly above the 2,000 level. So on a year-to-date basis, the S&P 500 increased about 150 points - or 8% in price only. Most of the return this year has been from the contribution of solid fundamentals in the form of earnings growth versus valuation.

As a reminder, the price of any stock or index is the result of both earnings and valuation.

(Price = Earnings X P/E)

The table below represents year-to-date figures:

	Price	Earnings*	P/E**
12/31/13	1,848	\$120.6	15.3
08/27/14	2,000	\$127.9	15.6

Based on this data, valuation has contributed only 36 points (.3 times \$120.6) or about 2% of the 8%, and the remaining 116 points, or 6%, has come from earnings growth.

This is a big change from 2013. The table below takes a look at the price change of the S&P 500 for calendar 2013:

	Price	Earnings*	P/E**
12/31/12	1,426	\$113.6	12.6
12/31/13	1,848	\$120.6	15.3

In 2013, the S&P 500 increased 422 points or about 30%, with valuation contributing 307 points (2.7 times \$113.6) or 22%, and earnings growth adding 115 points or about 8%.

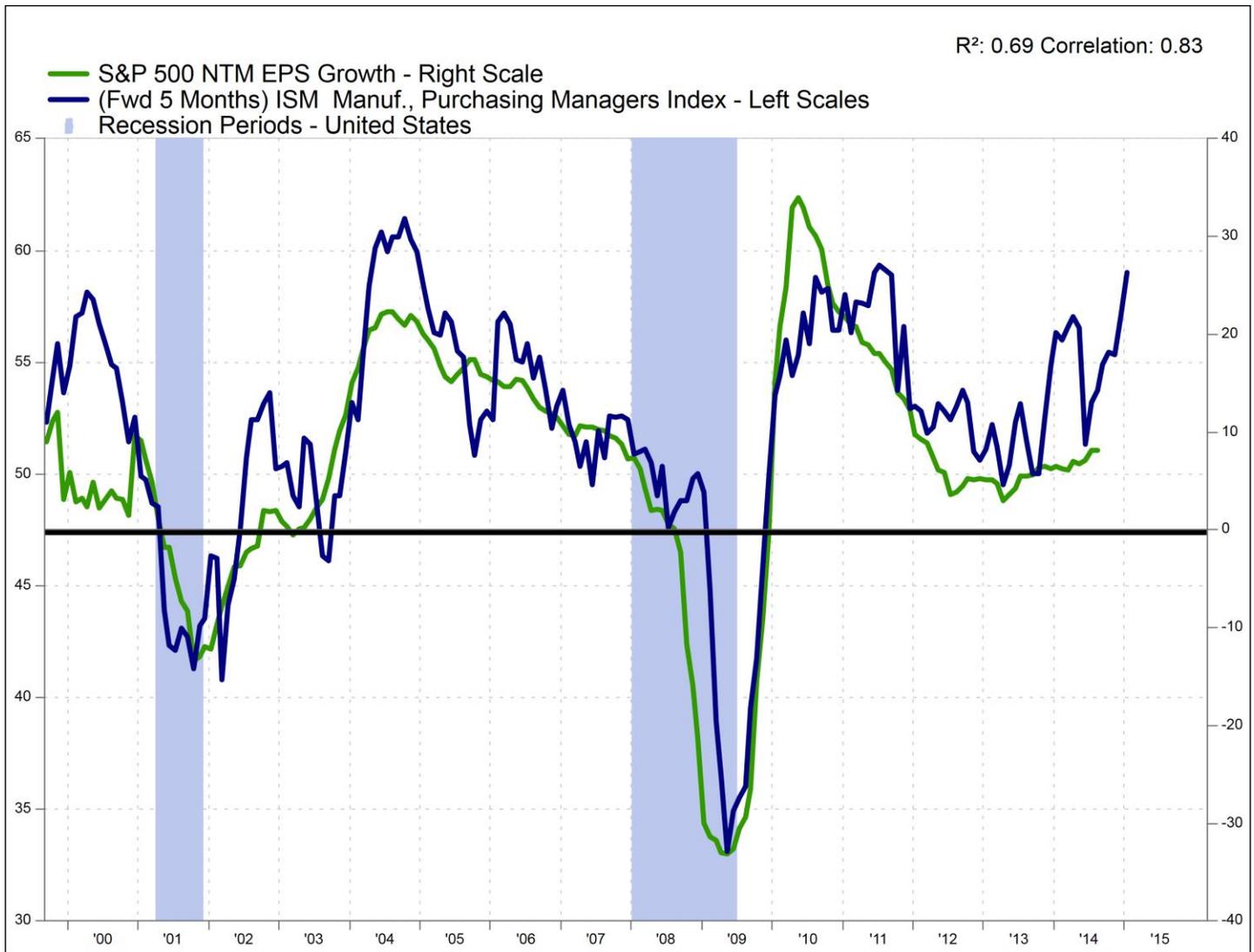
Looking forward, there is a good chance earnings growth will continue to be a meaningful contributor to future market appreciation.

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Source: Factset

The chart above represents the historical relationship between the ISM Manufacturing index (the blue line) and S&P 500 earnings growth (the green line). Over the last 15 years, the ISM index has been a steady leading indicator (83% correlation) of the trend in S&P 500 earnings growth. With a five month lead, recent ISM index strength suggests earning growth could continue to accelerate.

Stronger earnings growth with stable-to-improving valuation (P/E**) would point to further price appreciation in the months ahead. We remain focused on understanding the current trends in fundamentals because it gives us the best probability for investment success.

* Earnings are the next twelve months estimates from Factset.

** P/E is the price divided by the next twelve months estimates from Factset.

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