Chart of the Month

January 2016

S&P 500 worst 10-day starts			
	S&P 500 price performance		
Year	First 10 days of January	Rest of January	Rest of year
2016	-8.0%	?	?
2009	-6.6%	-2.1%	32.2%
1978	-6.0%	-0.2%	7.5%
2008	-6.0%	-0.2%	-34.6%
1935	-5.7%	1.6%	49.9%
1982	-5.1%	3.5%	20.9%

Source: Bespoke

The stock market declined 8% during the first 10 days of 2016, the worst start to a year in history. There was no place to hide as all the major indexes, including the Dow Jones Industrial Average, the S&P 500, and the Russell 1000, fell 8.0% to 8.2% in the opening two weeks of the year. Neither Growth nor Value strategies were immune from the sell-off as the Russell 1000 Growth and Value indexes dropped 8.3% and 8.1%, respectively.

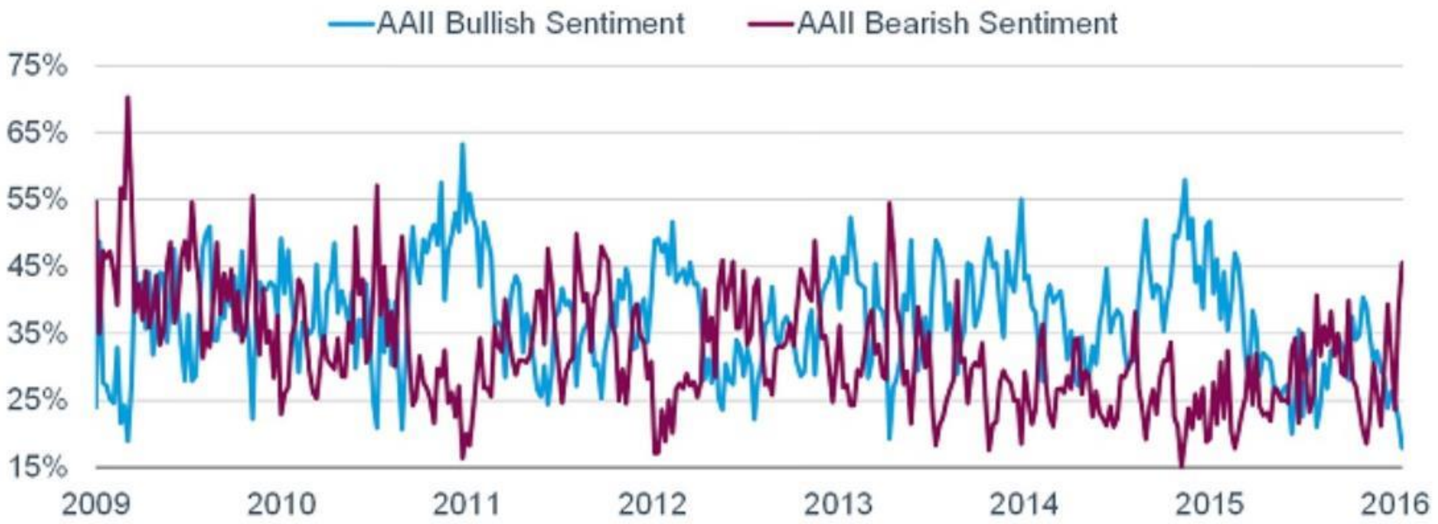
As shown in the table above, there have only been five other times since 1928 when the S&P 500 posted a loss of more than 5% in the first 10 trading days of the year. Of note, the returns for the rest of January were mixed while the results for the remainder of the year were more positive. We would caution about buying into these historical precedents because two of these periods occurred during the Great Recession in 2008 and 2009 and a third in the midst of the Great Depression in 1935. Importantly, we do not foresee a financial crisis the likes of 2008, 2009, or 1935. We would also discount 1982 as it was on the cusp of one of the biggest bull markets ever.

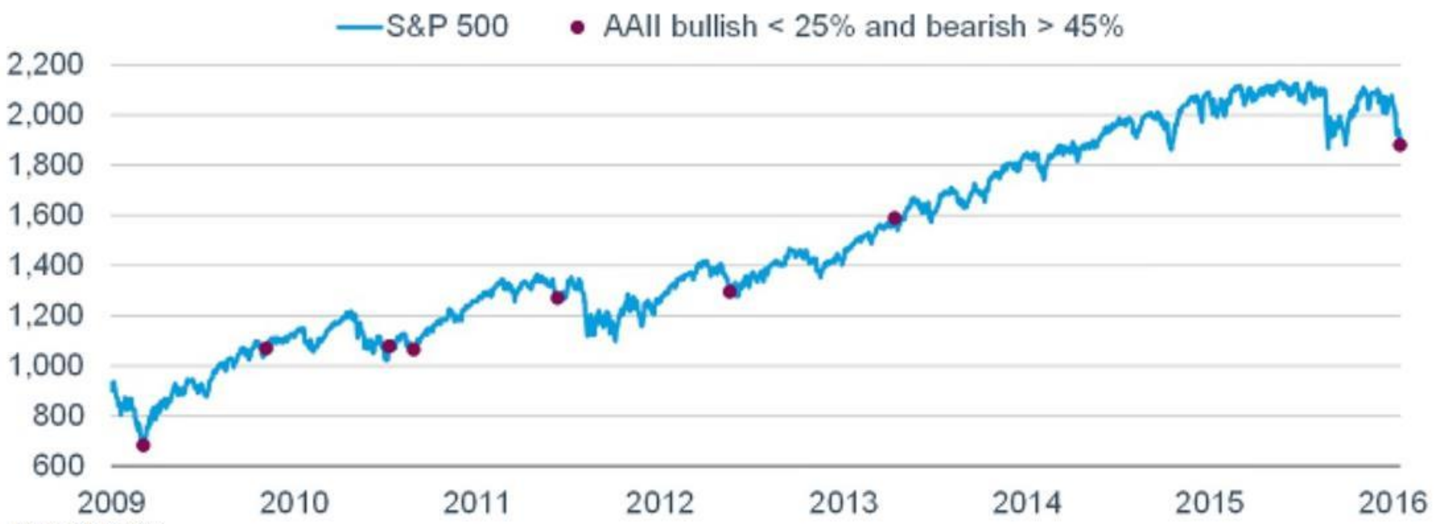
We are neither bullish nor bearish per se. Instead, as detailed in our November 2015 Chart of the Month, we believe the stock market is fairly valued. Due to the recent correction, one can now argue that stocks are slightly undervalued and perhaps poised for a modest rebound like that in 1978.

Based on the latest survey by the American Association of Individual Investors (AAII), the spike in bearishness and the plunge in bullishness would also suggest that the market may be at or near an interim bottom. Since the market low in 2009, such extreme readings of investor sentiment have generally provided good opportunities to buy rather than sell stocks.

To summarize Charles Schwab's chief investment strategist, Liz Ann Sonders, "While nobody knows where the market will go from here, adhering to a disciplined approach to asset allocation (involving diversification and periodic rebalancing) is the key to long-term success."

BULLISH & BEARISH SENTIMENT





Source: FactSet

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