

CHART OF THE MONTH

JANUARY 2018

On the heels of a strong 2017, which we covered in our [Chart of the Month for December](#), the S&P 500 produced a gain of 2.8% in the first five trading days of 2018, its best start to a year since 2006. Ryan Detrick, Senior Market Strategist for LPL Research, noted this week, “When the first five days of a new year are up 2% or more, the full year has been higher 15 out of 15 times!”

As shown in the table below, the return for the full year in these instances has ranged from 1.4% in 1984 to 38.1% in 1958 with an average of 18.6% and a median of 18.9%. The S&P has generated returns of 2% or better in the opening week every three or four years since 1999, resulting in full year advances of 12.8% to 29.6%.

The upside for 2018 looks promising based on these historical trading patterns. However, it is important to recognize that the market experienced pullbacks of a minimum of 4.4% even in the best year and as much as 33.5% in 1987 (which included a single-day decline of 22.6%, the biggest percentage loss in history). The average and median corrections during these 15 years were 11.1% and 8.4%, respectively.

While the market is in the midst of the longest period ever (14 months and counting) without a 3% drawdown, we believe investors should be mentally prepared for at least a 5%-10% adjustment in the coming year. That said, we remain cautiously optimistic as neither a recession nor bear market looms in the foreseeable future. Meanwhile, the reduction in the corporate tax rate from 35% to 21% doesn't appear to be fully baked into earnings estimates or stock prices, suggesting the potential for positive surprises.

Years That Are Up > 2% After 5 Days

Date	S&P 500	Return First 5 Days	Max Intra-Year Pullback	Return Full Year
01/08/51	21.00	2.8%	-8.1%	16.3%
01/08/58	40.99	2.5%	-4.4%	38.1%
01/08/63	64.74	2.6%	-6.5%	18.9%
01/09/67	82.81	3.1%	-6.6%	20.1%
01/08/75	70.04	2.2%	-14.1%	31.5%
01/08/76	94.58	4.9%	-8.4%	19.1%
01/08/79	98.80	2.8%	-10.2%	12.3%
01/07/83	145.17	3.2%	-6.9%	17.3%
01/09/84	168.89	2.4%	-12.7%	1.4%
01/08/87	257.28	6.2%	-33.5%	2.0%
01/08/99	1275.09	3.7%	-12.1%	19.5%
01/08/03	909.93	3.4%	-14.1%	26.4%
01/09/06	1290.15	3.4%	-7.7%	13.6%
01/08/10	1144.98	2.7%	-16.0%	12.8%
01/08/13	1457.15	2.2%	-5.8%	29.6%
01/08/18	2747.70	2.8%	?	?
		Average	-11.1%	18.6%
		Median	-8.4%	18.9%
		% Positive		100%

Source: LPL Research, FactSet 1/8/18



LEDERER & ASSOCIATES
INVESTMENT COUNSEL

5305 East 2nd Street, SUITE 201, LONG BEACH, CALIFORNIA 90803
TEL: (562) 434-5305 ▲ FAX: (562) 434-5306

www.lederer-associates.com