SELECTOR
Real-Time Money Management

Monthly Commentary

February 16, 2016

"Good investors gather information, put that information into current and historical context, then make sound decisions."

Equity markets have endured three selling flurries in each of the last three months. December's sell-off was the least dramatic, and January's the most dramatic. February's selling has been more lukewarm, and it appears that a positive reversal may have started to take hold, beginning with an intraday rally last Thursday. While that day ended in negative territory, significant ground was recovered in the afternoon, followed by very decent rallies on Friday the 12th, and again today on the 16th, following the President's Day holiday on Monday. The intraday low on Thursday for the DJIA was 15,503. The DJIA closed today 693 points above that low, which calculates at +4.47%. Better than a sharp stick in the eye. But the DJIA is still in negative territory for February, and has quite a climb ahead before recovering January's declines.

By every measure, domestic equities are involved in a moderate to severe correction. For reference purposes, a mild correction is about -5%, a moderate correction is about -10%, and a severe correction comes in at -15%. As is usually the case during corrections, Small Cap equities have had the roughest time, followed by Mid Cap equities, and finally Large Cap equities. The Russell 2000 Small Cap Index is down -14.31%, the S&P MidCap 400 Index is down -9.62%, and the S&P 500 is down -8.51%, all YTD as of last Friday. Factor in December's mild slide, and you have a good picture of how slippery the slope has been for equities. As was mentioned last month, this has been a global equity sell-off, with international equities being equally affected.

Utilities equities, precious metals, and high quality bonds represented the only shelters from the storm. Unfortunately, utilities and precious metals sectors have been treated harshly by investors over the past year. It required very bold moves to enter those beaten-up sectors of the market, knowing that a market rebound could rapidly reverse gains. On the other hand, portfolios that were balanced with high quality bonds, more from a strategic standpoint than from a tactical perspective, have fared better during the correction.

Two consecutive positive days does not a rebound rally make. While the calendar does dictate the timing of this Monthly Commentary, I would definitely prefer having another week or two of data before officially calling for an end to the correction. From a broad perspective, most investors are still about -10% lower than they would like, YTD, and about 15% lower than their high-water marks of 2015, last seen from September to November. It only stands to reason that it could take several weeks to recover all of that ground. Remember that for most of 2015 equity markets were floundering in a trading range. Personally, I would prefer more than just a return to complacency.

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So what are the positives at this juncture? First and foremost, we are still in a long-term Bull Market, and Bull Markets rarely end quietly. They prefer to end with a splash, a flair, a party. They generally don't slip away when nobody is paying attention. It has been a long time since investors have really enjoyed themselves. Our current correction may just prove to be the catalyst to get the party started! Second, it usually requires an economic recession to really bring the stock market to its knees. Since 1950, the U.S. has seen nine Bear Markets and ten recessions. Almost all of those Bear Markets have overlapped the economic recessions. While the U.S. economy is just plodding along, it is plodding along positively. An economic recession is generally defined as two consecutive calendar quarters with negative GDP, or gross domestic product. We haven't had one negative quarter. So if this isn't a Bear Market, it's a correction. A deeply oversold correction. Markets are overdue for a rally. Let's get this party started.

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Sources: Bloomberg, Marketwatch.com, StockCharts.com