SELECTOR
Real-Time Money Management

Monthly Commentary

September 16, 2015

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

Equity markets had been contained in a trading range that was being reported as being the longest period of time ever that the S&P 500 had traded in a 4% range. That changed dramatically the third week of August. On Thursday, the 20th, the S&P 500 closed down 355 points and broke a support level that had been in place since December of 2014. The next day the S&P 500 fell another 531 points. The stage was set for Monday morning, August 24th, when equity markets got caught in an algo-trade sequence that sent the DJIA down by over 1,000 points in the opening minutes, only to bounce higher by over 900 points inside the first hour. The months-long trading range was over, and with a breakout to the downside. We were experiencing the first market correction of 2015, and it was full of surprises.

What was most surprising was how quickly the selling would expand, and then suddenly end. On that Monday, the intraday low of the day, 15,370.83 for the DJIA, would prove to be the lowest intraday trading point of the correction. And it was occurring on just the 3rd day after the trading range break! A month earlier the DJIA had been trading at 18,137, which equates to a decline of 2,767 points, or -15.3%. Almost 2,000 of those points occurred in only three days. The total decline for the S&P 500 in this correction was -12.4%, and its decline during those three days was -9.9%.

"...but those three days…"

Just as a quick refresher, market corrections occur regularly during a Bull Market. In fact, this is the 21st time that equity markets have declined by more than 5% since this Bull Market started in March of 2009, or 6 1/2 years ago, that works out to an average of 3.2 corrections a year. Corrections of 10% or greater have historically occurred about once every year. And remember, this was the first correction of 2015. Our most recent correction was in September and October of 2014, and was a -8.6% correction for the DJIA and a -9.9% correction for the S&P 500. That was regarded as a quickly developing correction because it developed over four weeks. Our most recent correction also measured about four weeks from peak to trough, but those three days…

During the following two weeks we have seen a couple of pullbacks that resulted in a positive test, so it appears that the rebuilding process is well underway. This does not preclude any additional corrections for the next few months. Back in 2014 we experienced another mild correction in December before equity indexes continued on to new all-time highs. Our current correction has resulted in some dramatic 'remodeling' with respects to the trading range. The old 4% range for the S&P 500 has not been stretched into a 12% range, with two distinct 6% levels. At this writing the S&P 500 had reached the midpoint of the 12% total range. It will be very interesting to see if it can continue its climb back to the upper range immediately, or if more time will be required to build a broader base.

International equity markets also participated in concert with the domestic market declines. Like domestic equities, their declines were rapid. The developed international equity markets of Europe and Japan revisited levels last seen the end of 2014. Emerging market equities, however, which were already breaking below those levels, saw considerably more weakness. Interestingly, both developed international and emerging markets equities have reversed their declines in the same time frame as domestic equities.

Bond market response during the correction was quite predictable. High quality bonds moved sharply and briefly higher, then consolidated as equity markets rapidly recoiled. High yield and convertible bonds initially declined with equities, then also consolidated and have since moved marginally higher. We believe that this equity market correction is largely technical in nature and not indicative of the end of our long-term Bull Market. To put it simply, the economy is still growing, albeit slowly. There is no sign of an economic recession on the horizon and every Bear Market since WWII has been accompanied by a recession. Historically this a volatile time of year for a number of cyclical reasons, and this year is no exception. In fact, higher volatility often introduces greater opportunity. As quickly as things develop these days, it shouldn't be too long before we find out.

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Sources: Bloomberg, Marketwatch.com, StockCharts.com.