Top 6 Investment Lessons From 2015

By: Kristina Hooper

Like the New York Mets in the 2015 postseason, the US stock market was unable to deliver in the final days of the year. While some investors were hoping for a big Santa Claus rally, they got a small Santa slide instead.

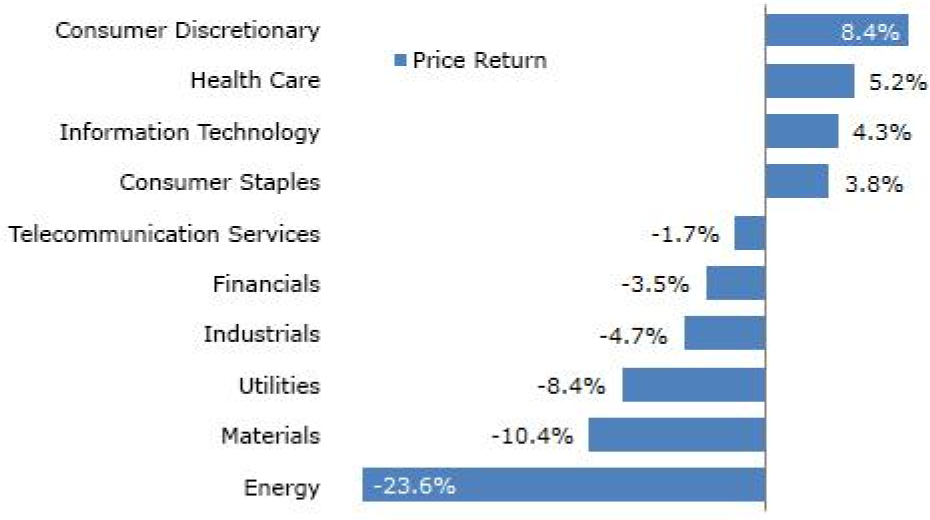
That left many market-watchers feeling shortchanged by 2015 - the first down year for the stock market since 2008. But here's what investors should really remember about the year that was:

1. All in all, it wasn't a bad year. Sure, US stocks in 2015 suffered their worst annual loss since 2008, but that's because it was their *first* annual loss since 2008. And when you compare the two years, their performance was very different: in terms of price appreciation, the S&P 500 Index fell just 0.73% in 2015 vs. 38.49% In 2008. So it seems perfectly reasonable to expect a year of consolidation after several years of outsized gains - particularly since earnings growth was lackluster and valuations were stretched. We can hope that 2015 provides a solid foundation for modest capital appreciation in 2016 as earnings slowly catch up to valuations.

2. Index investing took a hit. While index investing worked in the past few years, it didn't do quite as well last year. Take the S&P 500, for example. In 2014, all but one sector posted positive annual gains; thanks to this rising tide floating virtually all boats, investors had an easy time doing well in index funds. But in 2015, only four sectors posted positive gains. Consumer discretionary actually rose 8.4% while health care gained 5.3%. The tech sector also did well. Investors who focused on those areas likely would have experienced solid gains for the year, and those who avoided energy altogether would have fared far better.

In 2015, It Paid to Be Selective

In price terms, only four S&P 500 sectors posted positive gains in 2015, and the index was slightly negative overall. Being selective, and avoiding energy in particular, would have helped.



Source: Factset. Data as of 12/31/2015.

Past performance does not guarantee future results.

3. International diversification paid off. While US stocks fell in 2015, many international indexes rose. European stocks saw solid gains, with the DAX up 9.6% and the Euro Stoxx Index up 8.0%. Some Asian indexes also fared well-particularly the Nikkei, which rose more than 9%.

4. Dividends still matter. Dividends made the difference between positive and negative returns in 2015. While the S&P 500 dropped 0.73% in simple price terms, it gained 1.41% in total return - better than my money-market account. And dividend-focused investment strategies fared even better than the S&P 500 in terms of the yield they produced. Clearly, dividends continue to matter: They help smooth volatility and provide an important component of total return when price gains are modest.

5. Volatility happens. Market volatility rose in 2015, which wasn't a surprise given our expectation that the US Federal Reserve would begin normalizing monetary policy - which in turn would start the normalization of capital markets. Expect volatility to continue, and even increase, as 2016 ticks by. We've already seen greater volatility in January, with weak data from China and increased tensions in the Middle East. In addition, we're in a data-dependent world, and US markets may feel the jitters this week as investors await the next jobs report.

6. Don't be scared of bears. There's an old adage that goes, "If Santa Claus should fail to call, bears may come to Broad and Wall." Of course, that doesn't always happen. What's more predictive is how the stock market behaves in January. According to *The Stock Trader's Almanac*, the so-called January indicator has a batting average of .754 in predicting stock-market behavior for the year. More precisely, the first five days of a year are even more accurate in predicting where stocks will go in the rest of the year, with a .854 batting average for the past 41 years. May the Mets be so lucky in 2016.