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It's hard to believe that the first month of 2016 is already in the books and, in many ways, it is good to have the month of January behind us. With that said, there is an old market adage that warns, "As January goes, so goes the year." This adage would imply that if the first month of the year was positive, then the remainder of the year would be positive, and if the first month of the year was negative then the remainder of the year would be negative. However, it is not that cut and dried. Going back to 1950 there have been 40 Januaries that saw positive returns in the S&P 500 Index (SPX). Out of those 40 years, only three ended up having negative returns at the end of the year. In other words, 92.5% of the time a positive January is followed by a positive year. So, what happens when the market is down in the month of January? There have been 26 years in which January started off with negative returns for the S&P 500, and 14 of those years saw negative returns. In other words, 53.8% of the time a negative January is followed by a negative year, or just slightly better than a flip of a coin.

So, a positive January is typically a positive sign for the market, but a negative January is far less conclusive. In 2016 the market, as defined by the S&P 500, closed the month of January down -5.07%, the 7th worst January since 1950 (there is a three way tie for 7th place). It also marked the third consecutive year that the SPX ended the first month of the year in the red, as 2014 and 2015 saw the market decline -3.6% and -3.1% respectively, and 2014 turned out to be a positive year for the market while 2015 was down just slightly by the end of the year.

The point of this discussion is to keep you from being caught up in the media hype. The volatility in the markets has picked up over the past few months, and with the volatility will come opportunity. There is another saying that we often talk about and that is the fact that, "a rising tide lifts all boats." Well, the other side of that is "a receding tide reveals trash on the beach." Pullbacks in the market often reveal weakness otherwise masked by a rising tide.

Over the past few years US Equity held the number one ranking when compared to the four other asset classes. However, on February 8, 2016, Fixed Income moved into the number one ranking and was followed on February 11th with Cash moving to the number two ranking thus leaving US Equity trailing in third. This is a very important relationship that we will continue to monitor.

Within the US Equity market there is evidence of sectors beginning to rotate out of favor for the first time in many years, and others emerging as leaders. For example, the Healthcare Sector has been a leader for many years from a relative strength perspective, but has fallen in rankings recently while sectors like Technology, Consumer Discretionary, and Consumer Staples stocks have ascended to the top of the ranks. One of the consistent trends in the market has been the weakness in the Energy Sectors and there is no evidence of a change there as Energy is the lowest ranked sector out of the 10 broad economic sectors.

I hope 2016 is off to a great start for you, and your New Year's resolutions are still alive and well. If you have any questions about the particulars of your portfolio, or would like to discuss the potential opportunities within the equity market, please give me a call.

P.S. If you think this type of information would be of benefit to anyone you know, please share this communication with them.

FEWER CHOICES - There were 1.79 million existing homes for sale nationwide as of 12/31/15, a total that has dropped 460,000 in the last 6 months (source: National Association of Realtors).

OIL BUSINESS - On Friday 2/20/15, the price of oil was $50.34 a barrel and the number of operating rigs nationwide was 1,310. One year later, the price of oil is $29.72 a barrel (down 41% in 1 year) and the number of operating rigs is 514 (down 61%) as of the close of trading last Friday 2/19/16 (source: Department of Energy).

MORE THAN TRIPLE IN SIZE - The federal government's estimate for the interest cost on our national debt is $240 billion in fiscal year 2016 (i.e., the 12 months ending 9/30/16), then rising +14% per year over the next decade to $901 billion in fiscal year 2026 (source: Office of Management and Budget).

These are the views of James Steen & Jason Pearson. No independent analysis has been performed and the material should not be construed as investment advice. Investment decisions should not be based on this material since the information contained here is a singular update, and prudent investment decisions require the analysis of a much broader collection of facts and context. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy.

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