Market Update

February 10, 2016

Is this Bear Market for real and how long will it last?

In my last market update dated January 7, 2016, I discussed 2 main factors affecting the markets, China and Oil. I stated that I believed a short term Bear Market had begun. My overall stance on how to adjust portfolio's was to not do much at all, if anything, other than rebalance portfolios back to the strategic asset allocation being employed. For those wary of the immediate market environment I suggested to potentially consider looking at the most risky portions of their portfolios as a place to raise a small amount of cash. (If you would like a copy of the Market Update from January 7, 2016 please contact me.)

We are about 1 month from that last update and many things have happened. The markets have bounced off a low to only retest that low the past several trading days. The good news is, as of this writing, we have not broken through those lows which is a positive development.

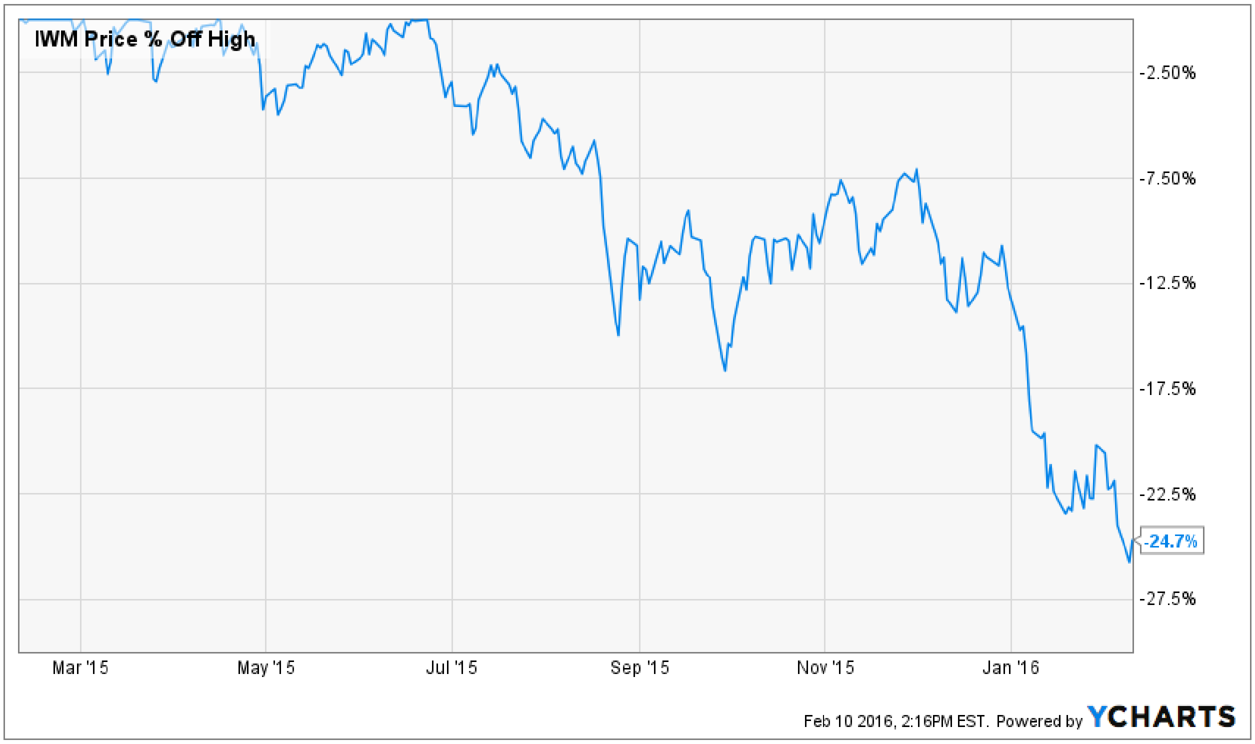
The formal definition of a Bear Market is a market in which prices are falling substantially over time. Most analysts agree that a bear market is confirmed when prices have fallen an average of 20% or more from their 52 week high.

I recently reviewed the following data produced from S&P Capital IQ and S&P Global on the Markets:

Sector Watch					
Sector	**Recovery Cycle Index High**	**Date**	**Post Cycle High/Low**	**Date**	**Decline From Peak Cycle**
Consumer Discretionary	648.1	11/25/2015	564.3	1/20/2016	12.93%
Consumer Staples	526.1	12/29/2015	494.5	1/20/2016	6.01%
Energy	737.1	6/23/2014	388.6	1/20/2016	47.28%
Financials	344.4	7/22/2015	280.6	1/25/2016	18.52%
Health Care	892.3	7/20/2015	743.3	9/28/2015	16.70%
Industrials	498.1	2/20/2015	419.1	1/20/2016	15.86%
Materials	326.6	2/24/2015	235	1/25/2016	28.05%
Technology	750.3	12/4/2015	651.8	1/20/2016	13.13%
Telecom	167	7/29/2014	139.5	8/25/2015	16.47%
Utilities	251.4	1/29/2015	206.5	9/4/2015	17.86%
Source: S&P Global					

Mixed performance based on the data above shows most sectors are in or right near a bear market. I believe that a bear market does not have to have a 20% decline from the highs on every index that can be measured all at once. We experience bear markets of varying depths and breadth.

One more data point that I believe provides insight into this current bear market is the performance of the Russell 2000 US Small Cap index down more about 24% since its recent high. The chart below shows the performance of the iShares Russell 2000 Small Cap ETF, ticker symbol IWM.



Information in this chart above is taken from sources we believe to be reliable; however we do not guarantee its accuracy or completeness.

How long might this bear market last is a common concern and question most people want answered. I cannot predict the ultimate length of a bear market especially when there are many events that could have an effect on the true length. For instance, the Federal Reserve's interest rate policy decisions and the unknowns surrounding who the next potential Presidential candidates will be can have an effect on this. Ned Davis Research provides a bear-market calendar, which counts 35 bear markets since 1900. The average length of a bear market is roughly 403 days. The S&P 500 hit its recent high on June 23, 2015, which indicates the start of this bear market. That was roughly 232 days ago. Should this bear market be of the average length then we might already be more than halfway through it.

My view on the markets and what to do has not changed in this time frame. We have since my last update gotten a better than anticipated unemployment report bringing unemployment down under 5%. Interest rates remain at historically low levels and inflation remains low. Finally, the energy price complex of oil prices, natural gas and coal remain very low and are showing signs of potentially stabilizing. Energy prices, a major input cost for both consumers and companies, remaining low should start to benefit the economy in the form of cost reduction and putting more capital into the hands of consumers and companies to spend and use for growth. There is a lag for this to become evident in the economy, but ultimately I believe and history shows us that it is a positive development.

Keep in mind that when crafting a portfolio asset allocation potential bear market performance is considered in the development of the allocation.

If you have questions or would like to discuss this further with regard to your personal portfolio please contact me at 310-433-5378.

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