Market Update

April 5, 2016

Is this market rebound going to last?

On March 11th the markets broke through the 200 day moving average of prices for a brief time, until regaining and breaking through the 200 day moving average again on March 16th. Since then the markets have continued to show strength and have risen to a recent high on the S&P 500 of approximately 2075 on April 1st. The two year chart of the S&P 500 below shows the index crossing the 200 day moving average indicated by the orange line. Also of note: the trend of the shorter 50 day moving average is now sloping up indicated by the blue line.

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

In my March market update, I discussed the bear market that I believe started on June 23 of 2015 had potentially hit a point in which it was half over or more, based on the average length of bear markets. The next positive sign needed to signal if the market rebound was going to last was the markets breaking through the 200 day moving average and sustaining that break through. (For a copy of March's market update please contact me.) The markets have done this and as earnings season starts there could potentially be more catalysts for further market improvements.

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The next signal that will potentially determine a longer term trend in the market and enough strength to reach new highs (breaking out of the bear market trend) will be what is considered the "Golden Cross." While it is debatable what moving averages should be used to indicate the "Golden Cross," I believe it is simply the 50 day moving average (the blue line in the above chart) crossing over the 200 day average (the orange line in the chart above). Technicians argue that this event signals a bull market and further upside in the markets to come. The potential of the "Golden Cross" and hitting new all-time highs in the market, in relatively short time frames from each other, can be argued as a very potent indication that the markets are poised for a further run to the upside, as long as there are no truly catastrophic world events.

I mentioned that earnings season is right upon us and that good earnings could be a catalyst for achieving these market indicators. Another reason that has helped solidify the recent move above the 200 day moving average and potentially the continued markets increase are the Federal Reserve's comments to remain very measured regarding interest rate policy. Many of the international worries we have had, especially China, have seemed to subside as well. Oil price stability has also helped.

The impact of the presidential race on the markets cannot be ignored. As the race moves on and gets closer to the end for the nominees, we will understand more and more about the potential future of our political environment.

As I mentioned in previous market updates periodically reviewing one's asset allocation to make sure it is in line with risk tolerances and goals is an ongoing process. As we continue to have conversations and the economic environment changes I will monitor and rebalance portfolio's to reflect these asset allocations. One area I am looking at for making shorter term tactical investments will be the presidential race. The next president will certainly shape policy decisions that may affect certain industries and segments of our economy. These changes in the political environment will create potential opportunities.

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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