2016 Comes in Like a Lion and Not Like a Lamb…

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January 20th, 2016

Over the first two weeks of the New Year the market has experienced the worst-first two weeks in history. Having said that, we are very concerned and the questions you might be asking include: ***What is happening this year to the markets? Is this a recession or panic or is it something else? What does this portend for the balance of the year for me, my family and my accounts?***

We believe this is ***something else***… What we are experiencing is what is called a "***selling stampede".*** Events like this generally last for 17 to 25 trading sessions with 1 to 3 day trading pauses or rally attempts before they exhaust themselves. This happened in 1998 and in the summer of 2011 as well. Today is session 14 of this process. If we are correct, then we are one-half to two-thirds of the way through this ordeal. There is the risk here that this is a bear market also… We do not think that to be the case in that we don't see the US falling into recession in 2016. Having said that, the risk of recession is greater today than it was 6 months ago. We believe the Fed is regretting their rate hike decision last month. They may admit their error, recant the increase and take it back, or slow down the number of increases which they originally forecast for the year (they originally telegraphed four increases). We suspect that number will be reduced to one or two increases if any.

Expect more volatility over the next two weeks. In fact, please be prepared as we may re-test the lows from Tuesday, August 25th which were 15,666.44 on the DOW (the intraday low for the DOW was 15,347 on Monday the 24th) and 1867.61 on the S&P 500.

Why is this happening today? First of all as you have noticed at the pumps***, oil has been crushed having dropped 25% in the first 19 days of 2016. The market does need to find a bottom in oil before we find stable ground. That fact coupled with the geopolitical unrest in Iran and the Middle East, and China's most recent blunder through another devaluation of their currency has combined to precipitate this sell-off.*** This was unexpected. Having said that, we believe this feels like the Ebola scare we experienced in October of 2014 or the Greek scare from last June. Ultimately, we have forgotten those two events as the market worked through these perceived tragedies.

Our best predictions of what will happen in 2016 follow:

- ***Global growth will remain fragile this year. Global trade and manufacturing activity will struggle, and growth scares should be expected. China's GDP came in at 6.9% for last year yesterday – that was a net positive for the markets.***
- ***The world's ongoing structural deceleration is converging toward a more balanced equilibrium. This structural convergence is not complete given the need for debt deleveraging in China and the emerging markets which may create more volatility.***

- ***As we near peak employment, the U.S. economy is unlikely to accelerate much more in 2016. However, we are on course to experience our longest expansion in a century underscoring PFP's long-term view of the resiliency of the US economy…***

- ***We believe those who see a weaker future of U.S. secular stagnation are too pessimistic and the cynics have overlooked the benefits of this expansion.***

- ***Policymakers are likely to face difficulties achieving 2% inflation over the medium term. As of December 2015, however, some of the most pernicious long-term deflationary forces are beginning to moderate for the first time in a decade.***

- ***Albeit we are not bearish, our outlook for emerging stocks is the most guarded in a decade given the low-interest-rate/low-earnings yield environment.***

After a re-test of the lows through this "selling stampede" <u>we believe this should create a buying opportunity in US equities as P/E ratios are fairly priced at 15 to 17.</u>

- ***The recent volatility conveys that we are closer to maturity in this cycle than originally thought. The closer to the peak, the more volatility we are likely to see.***
- ***The United States dollar and treasury notes will remain strong. This is great for American consumers and travel abroad, but is a headwind for US multi-nationals.***
- ***Geopolitical risk is greater than we have seen since March of 2003 before the invasion of Iraq. Geopolitical risk could cause further volatility if it continues.***
- ***Mark Cuban was asked last week, what he was doing as a result of all of this and his response was: "While all the selling seems to be based on China and the price of oil, I really don't know what the long term implications for our stock market is," he wrote. <u>"So I follow the number one rule of investing. When you don't know what to do. Do nothing."</u>***

We will be making recommendations and changes to portfolios over the next one to four weeks as a result of this volatility, and we always make course corrections to start each New Year once we see the trajectory the market has taken. However, panic is not a sagacious move presently - in our view. The reality is if you had asked 50 traders what was happening to the market last Friday, there was no consensus on what was transpiring. The ***"experts"*** don't seem to have a clear understanding as to why this selling is taking place other than it is directly tied to oil being crushed; further, few anticipated this to start the New Year. Having said all of that, ***<u>Steven and I are watching all of these events with great scrutiny and concern; that we promise to you.</u>*** If we believe this is evolving into a panic we will let you know that, but so far, that is not what we anticipate.

Feel free to call us at 614.901.3400 at any time. Or please call or expect a call from us to set up your next review sometime soon or call us to set up your time.