First Quarter 2016 Comes in Like a Lion - But Goes Out Like a Bull

By Bob Deitrick, ChFC
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As we close the books on the first quarter, the stock market is actually up; albeit slightly for the year. Who would have imagined that could have happened given the tumultuous start we had in January... The first trading day was terrible, but it paled in comparison to the collapse which followed.

Wall Street opened for trading to start the New Year with the DOW plunging 276 points on opening day. By the end of the first week the blue-chips were down 1,100 points -- their worst start to any year in history. A tone of doom began as the selling intensified. Like Gordon Gekko in the movie Wall Street when he knew he had been double-crossed by Charlie Sheen's character Bud Fox - several major banks, The Royal Bank of Scotland included, told clients to "dump everything." Many followed suit. Mega-bear Albert Edwards, a global strategist at Societe Generale, warned that the U.S. stock market could fall 75%. Warnings of deja-vous from the 2008-2009 financial crisis began to take hold... The opening-year freefall got Wall Street to the closest point it had been to a bear market since the financial crisis. On February 11th, the market hit its' lowest point of the quarter with the DOW hitting 15,503 and the S&P 500 at 1810 intraday that afternoon.

The bears had plenty of ammunition to make their case in January:

- ***Chinese stocks tumbled due to a 2nd devaluation of their currency in 6 months.***
- ***There were fears Beijing's debt-fueled economy would follow suit.***
- ***Oil went into an unexpected freefall dropping 28% in two weeks.***
- ***Bank stocks tanked due to concern that the credit markets might unravel due to the dramatic drop in oil.***
- ***The dollar soared delivering a hit to U.S. multinationals and emerging markets.***
- ***Global markets turned turbulent as the VIX peaked at 30.90 on February 11th.***
- ***The Bank of Japan pushed borrowing costs into negative territory for the 1st time.***

Adding to the negative momentum to start this year, the Fed was on the verge of making things worse by hiking short-term rates. At the peak of the pessimism in mid-February, major U.S. stock indexes were down more than 10% for the year. A bear market (a drop of 20% or more from the high last May) seemed possible. On February the 11th the DOW closed down 15% from its May 2015 record high. The benchmark S&P 500 was down 14.2% and the NASDAQ composite was down 18.2% - close to bear market territory.

Having said all of that, on February 12th - Steven and I noticed things were changing. The sun began to peak through the clouds for the first time in six weeks and the fears which sent stocks to the brink dissipated creating a tailwind for the first time in 2016. The market capitulated creating a rally of 14% pushing stocks out of danger. As we projected, oil rebounded moving from $26.50 to almost $40 per bbl last week. The dollar began to decline which helped earnings for the multi-nationals in the U.S. Calming words from other influential market players helped to put a floor under stocks which delivered renewed optimism to the markets.

Over the last seven weeks of the quarter, as calmer heads prevailed - stocks staged a stunning comeback... Last Thursday, as we closed the books on Q1 2016, the damage had been mostly erased and the stock market was back in the black - only 3% from the record highs set in May.

Fed Chairman Janet Yellen testifies before a Joint Economic Committee Hearing on Capitol Hill in 2016

Roots for the rebound began on January 27th when Fed Chair Yellen pleasantly surprised us by not hiking interest rates and sending out a warning flag regarding the mounting risks from abroad. Yellen's dovish words last week helped when she indicated that the pace of interest rate increases would be affected by international events and would not be set in stone.

What I would like everyone to take away from this last quarter is that in this situation, once again - Steven and I remain unruffled and did not panic. A major component of what we do for you, our client, is to assess all of the facts about any given situation - critically and objectively - and to take the subjectivity out of the equation before rendering a decision. <u>Our job is to remain calm and not panic - when everyone else around us might be doing so.</u> In this case, there was reason for genuine concern, but we saw this series of events to start the year as an anomaly not rooted in real fact. The economy had not changed fundamentally from January the 1st to mid-February and we suspected the markets would capitulate and bounce back. And they did…

So, as we enter the 2nd quarter of 2016, the market has stabilized. However, it is clearly showing signs of fray as we approach the apex of this bull cycle. The question is, how long will this peak last? Six, 12, or 18 months… That remains to be seen. But it is clear this market may have a second wind left in it yet, and our goal is to take advantage of that to the extent we can. As we grind closer to the apex in this cycle, volatility is probable, so please understand - that may be the norm.

We also saw some solid macro-economic numbers last Friday. The U.S. economy created 215K new jobs in March - a healthy month. Embedded in that number, the labor participation rate increased which means more folks got back into the job market. Hourly

earnings increased meaning that employees have more to spend. Manufacturing produced a solid result in March also with the ISM benchmark climbing to 51.8 - up from 49.5 in February. Any reading above 50 indicates that sector activity is rising. Auto sales were at 1.6 million new cars and trucks in March, a 3.2 percent increase from a year ago. Consumer Confidence rose to 96.2 up from 94.0 in February. Finally, the VIX is down to the stable range at 13 to 14. Overall, this economy continues to grind ahead steadily. The notion that the economy is heading toward a recession, which some predicted just a few weeks ago and Donald Trump predicted last weekend, is unlikely in our view for this year.

We have two exciting and fun-filled seminars in April to discuss all of this exhilarating news in greater detail. Those dates follow:

- ***Tuesday, April the 19th at Brio of Polaris – Starting Time is 12 Noon.***
  A sit down luncheon will be provided by the chefs of Brio.
- ***Friday, April the 22nd at Eddie Merlots of Polaris – Starting Time is 12:00 Noon.***
  A sit down luncheon will be provided by the chefs of Eddie's.

RSVP to Steven by April 15th at: smorgan@ae.cadaretgrant.com
or call: 614.901.3400 or 800.244 6517.

These two seminars will be very similar in content, so you need only attend one of the two. We highly encourage our clients to attend; further, you are welcome and encouraged to bring a guest, family member, co-worker or neighbor as well. Have a terrific week!

Bob Deitrick, ChFC and Steven Morgan