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Stocks Stumble Out of the Gate in 2015—More to Come?

January Market Review From Your Portfolio Management Team—February 9, 2015

For the second year in a row, stocks were down for the month of January, once again bringing up commentary in the media about the so-called January barometer, which claims that as January goes, so goes the full year. According to Ned Davis Research, since 1950, when the S&P 500 index has been up in January, the index have averaged a gain over 12% from February through December, but less than a 1% gain when the S&P was down in January. This occurrence gives the bearish crowd has another arrow in their quiver to argue against buying stocks in 2015. Of course, both 2014 as well as 2010, were recent examples when the month of January was down, yet the stock market finished the year solidly in positive territory, so this observation is certainly no guarantee of what the future may hold.

We are also noticing a more difficult earnings season for stocks as they report their profits from the fourth quarter. According to research firm FactSet, the stocks in the S&P 500 index that have reported so far have only showed profit increases of 2% on average. And for the next quarter, they are predicting a negative earnings growth. Obviously, this slowdown in earnings growth will weigh on the stock market, and it could suggest a choppier environment for stocks over the coming months.

In addition, the government released its first estimate of overall economic growth last week, and the estimate was less than most observers had expected. GDP growth was estimated at 2.6% for the fourth quarter of last year, down from the robust 5.0% recorded for the third quarter, and more importantly, most observers were expecting growth to be over 3%. This has many analysts a bit worried because the U.S. was considered the bright star globally among a sea of rather dim lights, as many economies are struggling. The hope has been that strength in the U.S. could help pull the rest of the world to a better place. If there are signs that the U.S. economy is slipping, that would force all investors to rethink their bullish positions.

So that we don't come across as too gloomy on the markets, we have noticed that foreign markets have started the year relatively well, certainly in comparison with how they finished last year. This includes the developed markets of Japan and Europe, as well as the emerging markets (such as China, India, and even Russia). Of course, one month does not make a trend, but it would be encouraging to see stock market participation broaden out wider than just large U.S. companies, which was the tendency last year.

The table below shows the broad asset allocation of the five strategies that FSA manages. We have created a column for foreign funds to show that we are currently underweight that asset class, and in fact, have been underweight foreign stocks for several years, as the U.S. has been the clear leader.

Strategy	US Stock Funds	Foreign Funds	Commodities	HY Bonds	Quality Bonds	Money Markets
Tactical Growth	60%	5%	5%	5%	0%	25%
Core Equity	75%	0%	0%	5%	N/A	20%
Conservative Growth	45%	10%	0%	0%	35%	10%
Income & Growth	40%	0%	0%	0%	50%	10%
Income	N/A	N/A	N/A	15%	70%	15%

Note: Allocation percentages are as of January 31, 2015 and are an average of all accounts within the strategy. Individual account allocations may differ from these averages.

However, as noted above, we might see a change in leadership this year, as Europe undergoes their own version of QE (Quantitative Easing—accommodative monetary policy) and the U.S. begins a more restrictive monetary policy when it begins to raise interest rates later this year, as the Federal Reserve has been suggesting.

With the overall stock market trends more tentative as we enter 2015, we have slightly elevated money market positions, particularly in our more aggressive strategies (Core Equity and Tactical Growth). As we find opportunities that are exhibiting strength, we will reduce the money market position. As it is, the portfolios are behaving well and giving us a good balance of protection, as well as participation.

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