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Market Commentary & Analysis

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As Goes January . . . Revisited

January 2016

Oh, market volatility – your foul stench is particularly rancid in the dark of winter, when the taxman begins his rounds and rebalancing fills investors' minds.

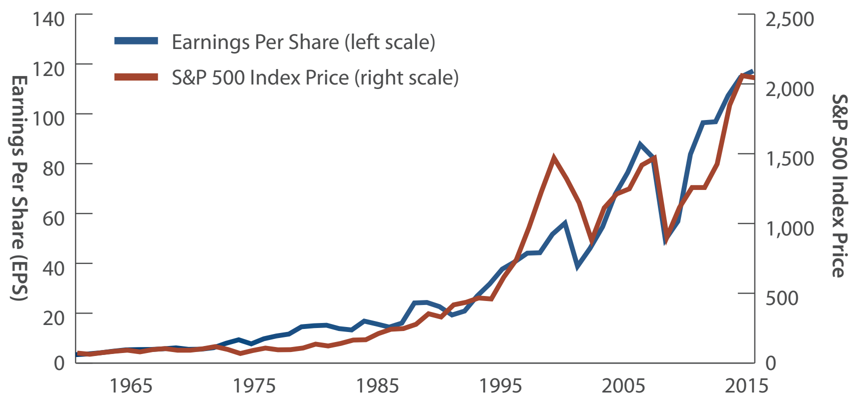
But, as goes January, so goes the year? Not so fast.

It is not unusual to have a down January. Since 1961, about a third of the years have seen a January with negative equity market returns: 19 of 55, to be exact.

Of these 19, only six had years where earnings declined, the rest saw increases in earnings. On average, the S&P 500 Index returned 3.56% in these 19 years. However, when earnings increased for those years when January was negative, the return increased to 6.51%.

Admittedly, earnings growth has slowed, but it remains positive. Ultimately, market prices tend to follow earnings (see chart at right).

S&P 500: EPS vs. Index Price



Data Source: New York University, Stern School of Economics *Analysis: Saturna Capital*

In Saturna's view, low earnings growth leads to higher market volatility. For bonds, the lower the yield, the higher the volatility. Similarly for equities, the lower the earnings yield, the higher the volatility in the face of even small declines in earnings estimates.

There have been six occasions where there were two down January years in a row. 2015 – 2016 looks to be another. However, there's only been one occasion

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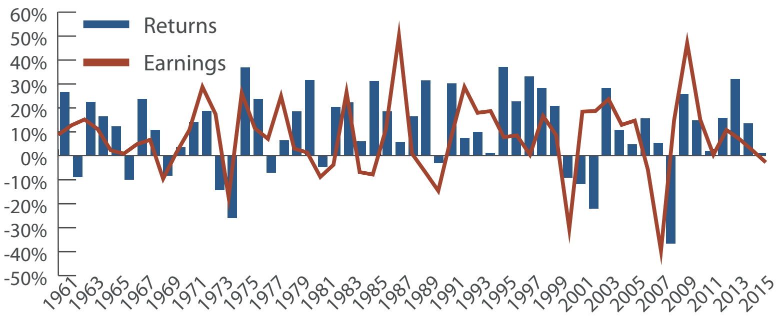
where January was lower THREE years in a row. Also, the year of the second down January tends to produce exceptional returns (23% on average).

Anxiety often follows high volatility and the likelihood of acting on "gut instinct" increases. Gut Instinct can easily lead one astray. If your investment horizon is longer than a couple of years, we remind you of the financial crisis of 2007 – 2009. As painful as the "Great Recession" was, if you sold at the bottom, you missed out on the 220.15% equity bull market, trough to peak (see chart at right).

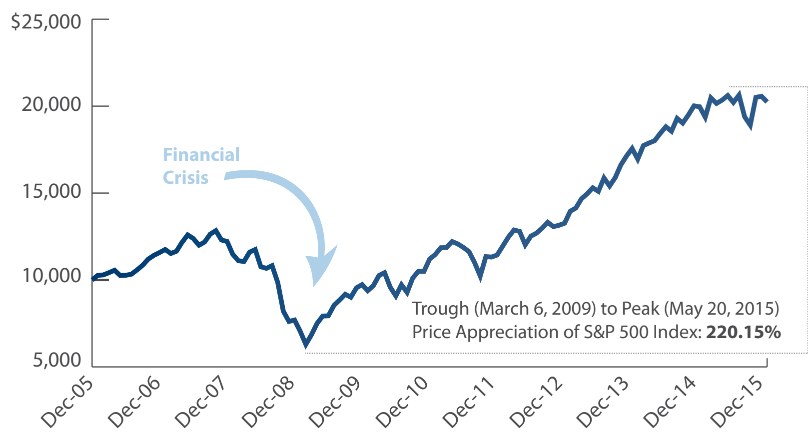
While jarring, occasional market gyrations are not your greatest risk. Your greatest risk is not being invested, while attempting to time markets only benefits those collecting commissions.

S&P 500: Returns Follow Earnings



Data Source: New York University, Stern School of Economics *Analysis: Saturna Capital*

S&P 500 Index: Growth of $10,000 Dec. 31, 2005 through Dec. 31, 2015



Source: Bloomberg

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