Infomail
October 5, 2015

Buy The Dips or Sell The Rips?

"If stupidity got us into this mess, why can't stupidity get us out?"
Will Rogers, Social Commentator and American Cowboy

We are more than six years into the current bull market.

With three quarters of 2015 now in the record books, I thought in this piece, would look back on the year and look ahead a bit. So far in 2015, the "sell in May and go away" effect was the correct one.

The first 10% correction in over three years has helped reset valuations a bit, but market trading conditions continue to be very challenging. Trading conditions in commodities remain tough and until recently, it seemed that the US economy was carrying the weight of global economic growth.

Last week's US jobs number came in at +142,000, when consensus was +200,000 new jobs. What's worse, the jobs created for July and August were revised LOWER by a combined 59,000 jobs. The participation rate continues to fall. By every measurement, the number was a disaster.

So the odds of the US Federal Reserve raising rates in 2015, despite their indications to do so, just got a lot less certain.

In Canada, with a negative GDP number in Q2 of -0.5%, if two negative quarters are the definition of a recession, then we are technically in recession. While the debate between commentators rests on whether Canada is in a "technical" or an "outright" recession is largely meaningless, most economists seem to be of the view that the worst of the slump is behind us, as the impact of the collapse in energy prices and spending cuts in the energy sector fades.

So putting the current pullback into perspective, looking at pullbacks in modern market history (post 1946), we see in the chart below most pullbacks fall into the 5-10% range, and usually average one month. Declines between 1—20% occur about every three years and the recovery period are about three months. As we get into more serious pullback in the 20-40% range, the average recovery time is bout 14months.

A 40% decline has only happened three times since 1945, but two have been recently (in 2001-02) and 2008-09) so they are fresh on investor's minds who now believe they are a regular occurrence.

DECLINES IN THE S&P 500 (SINCE 12.31.1945)[1]

Decline Percent	Number	Average Decline %	Average Length of Decline in Months	Average Time to Recover in Months
5-10	75	(6)	1	1
10-20	25	(13)	4	3
20-40	8	(27)	11	14
40+	3	(51)	22	57

What is interesting is that those pullbacks greater than 20%, in each and every case have been associated with economic recessions. So what it all boils down to is if the USA is going into recession and at this point, I do not believe that is the case. In fact, not even close.

Last quarters GDP number was revised higher to the +3.5% range, A solid number. Auto sales are on a pace which may surpass the previous high of 17.4 million units. Housing has firmed and while the last jobs number disappointed, they've been decent (>200,000) all of 2015.

In addition, I would like to revisit the years ending in "5" which we highlighted at the beginning of the year.

Years Ending in "5"	
	S&P 500
2005	3.00%
1995	34.11
1985	6.33
1975	31.55
1965	9.06
1955	26.40
1945	30.72
1935	41.37

Birinyi Associates, Inc. October 2015

Since 1935, the S&P 500 has not registered a losing year, in years ending in "5". The worst was a +3.0% in 2005. With the S&P 500 down about 8% until the end of September, it needs a big gain in the final three months to keep the streak intact.

So is it "buy the dips" or "sell the rips" (ie. rallies)?

The bears are making good arguments about the implications of the worries – Central banks out of bullets, policy missteps, debt overload, slowing growth, structural issues, equity market overvaluations, derivative positioning, technical damage, overheard resistance, etc., etc… - and they are definitely a "sell the rips" camp. Alternatively, the bulls sell decent (US) and improving (Europe) fundamentals, supportive of allocation assets to equities. Stock valuation are not outrageous and remain especially attractive against bonds, corporate balance sheets are in the best shape they've been in , M&A activity remains robust, central banks are stimulating, low oil prices are stimulating, etc… and for those reasons, the bulls are buying the dips.

Me? I still believe we are in a correction in a multi-year bull market which remains intact.

September statistically has been a tough month. October, despite having a bad reputation due to crashes in 1929 and 1987, has historically been a bear market killer.

I think that might be the case in 2015.

Stay tuned,

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