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April 12, 2016 Dow Jones Industrial Average: 17,721

In the words of Captain Obvious, "Well, the 1st Quarter wasn't Boring!!!"

The first 45 days of the year saw the equity markets drop roughly 10%, and the price of oil bottoming out below $27 a barrel. Once, oil finally got some upward momentum, the stock markets were able to gain some traction. And really since the mid-February bottom of oil, the stock market and commodity markets have been moving higher or "reflating".

I tend to make things simplistic (perhaps too), but let me summarize what happened (in my opinion) of the first quarter: both the stock market and oil markets were being pushed down due to short sellers…investors / traders who are trying to profit by pushing the markets down. In January, the short sellers were loving life. But, after mid-February- their investments started to lose money. As, the investments continue to move higher, the short sellers were forced to buy back the stock that they "sold short"…which pushes the market up. In down markets- short sellers have a snowball effect of pushing a stock or market down, but as the market reverses- it has the opposite effect: the market rolls up or "reflates". The sellers have to turn around and buy the stocks back.

Sorry for the Stock Market Investing 101 class…but, I fielded several questions about the pending market collapse, and doomsday scenarios in February. And quite honestly, it is just market traders doing their "thing". Oil traders ran oil up to $140 back in 2008, and this time around they ran it down to $27.

Side-Bar: I attended a luncheon presentation by Brian Wesbury, the Chief Economist of First Trust, and he gave an interesting statistic: in the 4th Quarter of 2015, the overall earnings of the S&P 500 was down by 4%-- but if you factor out energy, the earnings would have been up 2%. So, if the price of oil is recovering- certainly, the earnings of the S&P 500 should trend higher…all things being equal.

Now that oil is on its way back to $50 a barrel (maybe by the end of year), where does the market go from here? And where should we allocate our dollars?

I think we have a few themes going on for the remainder of the year:

1. Probably the most obvious—Election Fears
2. Sell in May and Go Away
3. Geo-Political Risk

<u>Theme #1: Political Season</u>

I don't know if I have a whole lot to contribute to that discussion…more than anyone else's opinion. But, if you remember the 2012- once the typical summer malaise kicked-in, the market seemed to downshift into a "wait and see attitude" to see who was going to win in the November election. The large investors that tend to come back into the market around September, did not want place any large bets until they had a sense of who was going to win the election.

Theme 2: Sell in May and Go Away

There is an adage on Wall Street that has been around for over 70 years, which is "Sell in May and Go Away". Which translates to the stock market tends to sell off due to summer vacations, weaker corporate earnings, and a lack of good news that tends draw down the overall market. The following are some statistics for your review, which give some credence to this adage:

Last 20 Years:
November 1 to April 30, average gain: +7.7%
May 1 to October 31, average gain: +0.2%

Last 50 Years
November 1 to April 30, average gain: +7.3%
May 1 to October 31, average gain: +0.03%
Data Source: Bespoke, October 29, 2015, "November Seasonality"

And here is some of the more recent years (remember that 2012 was a presidential year and in 2013 [after the uncertainty of the election] the S&P 500 was up roughly 32%:

Year	November 1 to April 30	May 1 to October 31
2009-10	+14.5%	-0.3%
2010-11	+15.2%	-8.1%
2011-12	+11.5%	+1.0%
2012-13	+13.1%	+9.9%
2013-14	+7.3%	+7.1%
2014-15	+3.3%	-0.3%
Average:	+10.82%	+1.55%

Source: Yahoo! Finance (using the S&P 500)

Theme 3: Geo-Political Risk

Honestly, this theme has a little bit of a catch-all ring to it. On the positive note, I think you will see oil continue to move higher through the end of the year, but will probably have a positive and negative news cycle flow.

But, oil drillers and MLP (oil pipelines) should be a good place to be this year…in my opinion.

On the other hand:

1. Before-long, we will be hearing talk of a "Brexit" out of the Euro. Which is when Great Britain will voting on whether they vote to leave the European Union. Which could lead to a lot of volatility.

2. Greece tends to come back into the spot light over the summer, which always causes headaches.

3. North Korea may actually do something with their newly developed ICB missiles and nuclear warhead. Which is much scarier than any of the other issues.

Game Plan

So, taking the three themes into account- my feeling is that an investor does not want to completely sell out of his equity investments, in case the market actually performs well.

But, if history holds true, and the tea leaves prove themselves correct- it seems prudent to move some investment dollars to the money market or a more safe / interest yielding investment vehicle. Then, once the election is over / or the market gives a signal to buy- we reallocate back into the investments. April tends to be a good month for the market, and I think the market will move higher over the next couple of weeks…so we do not have to make any reallocations right this second, but my feeling is that if the market hits the recent high or by May1st- we need to have a game plan in place, if you are wanting to tactically move some dollars.

If you are not motivated to tactically move your investments- that is fine. I am simply giving my short to 6 month outlook on the market.

Certainly, if you have any questions, please feel free to contact me with any questions that you might have. I hope that you enjoy the spring weather, and the 2016 Cardinal baseball season.

GO CARDS!!!