HAAS Fydroski Financial Services, Inc.
Investments - Planning - Education

IPE Insights

DECEMBER 2015

JIM'S JOURNAL

James H. Fydroski CFP®
President, Haas Financial Services Inc.

Market Schizophrenia & Santa Claus Rally

"In looking back at my 28+ years of being responsible for other people's money in the markets, I am not sure I can recall a time that has been so consistently difficult to manage." - Dave & Donald Moenning's Daily State of the Markets, December 18, 2015.

According to Wikipedia, schizophrenia is a psychiatric diagnosis that describes a mental disorder characterized by abnormalities in the perception or expression of reality. Distortions in perception may affect all five senses…but most commonly manifest as auditory hallucinations, paranoid or bizarre delusions, or disorganized speech and thinking with significant social or occupational dysfunction.

While the above definition may be a bit difficult to comprehend and I do not profess to be a psychiatrist, the stock market sure seems to have displayed paranoid, bizarre and dysfunctional behavior since the end of first quarter 2014 and almost all of 2015. During this period, there have been many times that the market has gone up for a few days and then gone violently down in a 180 degree turn a few days later. It is natural for markets to go up and down but not in the almost daily time periods we have seen over the last eighteen months.

Looking back over the decades, it is not unusual to see difficult times in the stock market. Everyone has heard of the Wall Street Crash of 1929. On Black Monday, October 19, 1987, the DOW fell 22.61% in one day. After I entered this business in 1995, there was the Asian Financial Crisis of 1997, the Dot-Com Bubble of 2000, the Financial Crisis of 2008, the Flash Crash of May 6, 2010 and several others that could also be mentioned.

But what makes this market of the last 18 months so tough to manage is the extreme volatility and the length of time that stocks have basically traded in the same range. By the same range I mean that once the market hits a certain peak, it moves back down and after it hits a certain low point, it moves back up. After all is said and done, the market really has gone nowhere for many months now. Yet it has gone nowhere in a very violent, volatile fashion. What the casual observer may not realize is that the lack of gains or losses seen on the long-term stock charts doesn't tell the entire story of this market. In between all those trips through the trading range, it was the frequent daily volatility that made it almost impossible to develop a strategy that lasted for more than a few days.

As an example, on December 16, the day the Fed hiked interest rates for the first time in nine years, the DOW rallied 224 points. Added to the gains of the two previous days, the DOW was up 483 points in three trading days. It initially looked and felt like a trend might be developing; however, the bears returned the following day and smoked the Dow for a loss of 253 points. The following day, the DOW lost another 367 points wiping out the gains of the previous three days. This has been a pattern and the story for months now. The beat goes on and when it will stop nobody knows.

One pattern that has been studied since 1972 and that has shown some consistency over the years is called the "Santa Claus Rally." Yale Hirsh, who founded the Stock Traders Almanac defined the Santa Claus Rally as the period occurring during the last 5 trading days of the old year and the first two trading days of the new year. Historical data shows that Santa tends to come to Wall Street nearly every year during these trading days with a short, sweet rally. The average gain during this period has been 1.5% since 1969. Since this period is more often than not an up period for stock prices, a failure to rally during this period is a telltale sign.

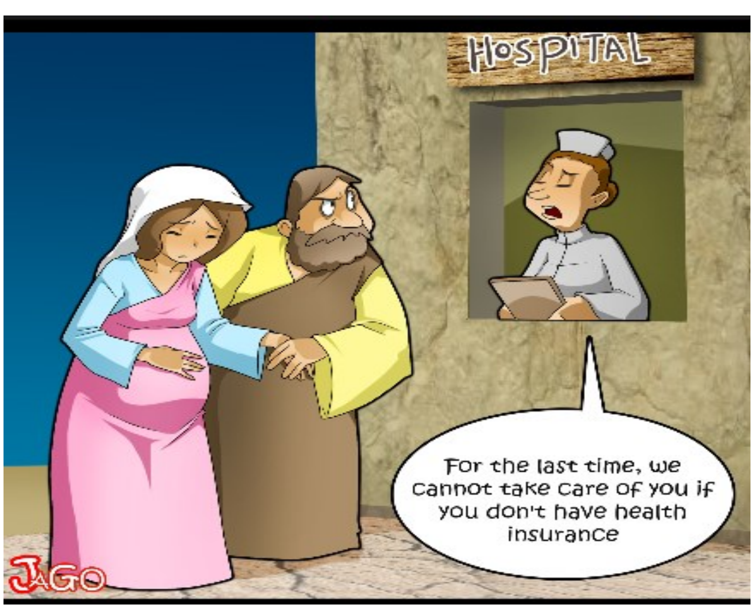
The old saying on Wall Street is, "If Santa Claus should fail to call, bears may come to Broad and Wall." The point is that if there is no rally for stocks during this seven day period, it is a bearish omen for the stock market the following year. As I write this article, the first two days of the rally period have been down days for the DOW and S&P500. The third day was up. So at this time we are still unsure which way the omen will point.

By the time you receive this newsletter, Christmas will have past and the New Year will be quickly approaching. Hopefully, my newsletters of this year have provided some insight into the extraordinary market environment we have been experiencing. Every year is different but the last few years have been quite out of pattern and character. As the opening quote from Dave Moenning stated, "…*I am not sure I can recall a time that has been so consistently difficult to manage."* Thank you for being clients and best wishes for the New Year!!!

From
Jim & Pat

With a few laughs.......

"Some people call him Santa Claus, some call him Kris Kringle, some call him Saint Nicholas. Obviously, a victim of identity theft!"



Advisory Services Offered Through Haas Financial Services, Inc.
21415 CIVIC CENTER DRIVE, SUITE 117A, SOUTHFIELD, MI 48076
HTTP://WWW.HAASFSI.COM/ PH 248-728-0028 Fax 248-499-1972 Jim@haasfsi.com