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Ellumination Newsletter

As Goes January, So Goes the Year

February 2, 2009

That is the "urban myth" better known as the "January effect"-if the stock market is down in January it tends to fall for the rest of the year. The only problem is that it isn't always true.

If the "January effect" had any real predictive characteristics for the next twelve months we would be in big trouble for the remainder of 2009. The Dow Jones Industrial Average lost 8.8% for the month. That was the worst January for the DJIA in the past 112 years. The S&P 500 lost 8.6%. That is its worst January EVER.

Since 1950 there have been 22 stock market declines in January. Thirteen times the market remained down for the rest of the year. Nine times there were gains for the year. So, if history is our guide the odds are roughly 60% in favor of the market staying down for the year, and 40% in favor of the market rising by the end of the year. Mark Hulbert reports that if you look at all years back to 1896, the year the DJIA was created, the ratio is closer to 50-50.

The "January effect" has been a more reliable guide as to what might happen in the next few months however. Since 1950 there has been only one year in which the market was down in January that it did not drop more during the next one to three months. That was 1956. In that year the market posted its low tick in January and rose thereafter. All other times, 21 of them, the market continued downward after January, before regaining its footing on the nine occasions that it finished up for the year.

The Stock Trader's Almanac reports, "Also of concern is the December Low Indicator. The DJIA posted its December 2008 closing low on the first trading day of the month at 8149.09. The DJIA closed at 8000 on January 31, 2009, or 149 points lower than the December 2008 closing low."

Since 1952 there have been 30 instances of the DJIA closing lower during the first quarter of the new year than it did in the preceding December. 28 of 30 occurrences have signaled further declines for an average drop on the DJIA of an additional 9.8%.

While we get all this information from the Stock Trader's Almanac they do not seem too worried about long term declines in the market. They are forecasting that the DJIA will be back to 10500 by June 2009. Go figure? Hey it could happen. Then again it might not.

5T Wealth Management is not offering any forecasts for stocks for 2009. We are following the charts-period-end of story. The charts tell us that ALL major U.S. stock indexes are currently caught in trading ranges. At this point the charts offer few clues as to which way the trading ranges will be resolved-upward or downward. Last time we showed you the chart below. It portrays the S&P 500. We told you that almost all major U.S. stock averages are displaying "flag" or "pennant" formations just like this one.

This is often referred to as a "continuation pattern". It can be interpreted as a "rest period" before the former trend resumes. That would be down. Thursday and Fridays sell off did nothing to alter this overall formation. It just moved the market back down toward the bottom of the pennant. If the pennant formation holds, it is possible that we could see another small move down to 815, or so, on the S&P 500. Then it would be reasonable to expect a rally back to the low 900's.



The chart below is the DJIA. You can see the similar "flag" pattern. The only difference is that we are already down to the lower boundary of the pennant. If the pennant remains intact the next move could be a rally back to about 8800-8900.



The only major U.S. stock average that doesn't look like this right now is the Dow Jones Transportation Average (TRANSPORTS). The transports are actually in a much more bearish pattern and look ready to

break to the downside any minute.

Needless to say, we continue to monitor the situation closely. And--**we continue to favor gold, bonds and cash as the places to invest.**

John Murphy's market message on Saturday started as follows:

STOCKS HAVE WORST JANUARY IN HISTORY -- CORPORATE BONDS GAIN GROUND AS TREASURIES DROP -- GOLD CONTINUES TO SHINE

Here are a few more excerpts from that report:

GOING FOR THE GOLD ... With stocks falling again this week, and Treasury bond prices tumbling, investors turned to gold as a safe haven.

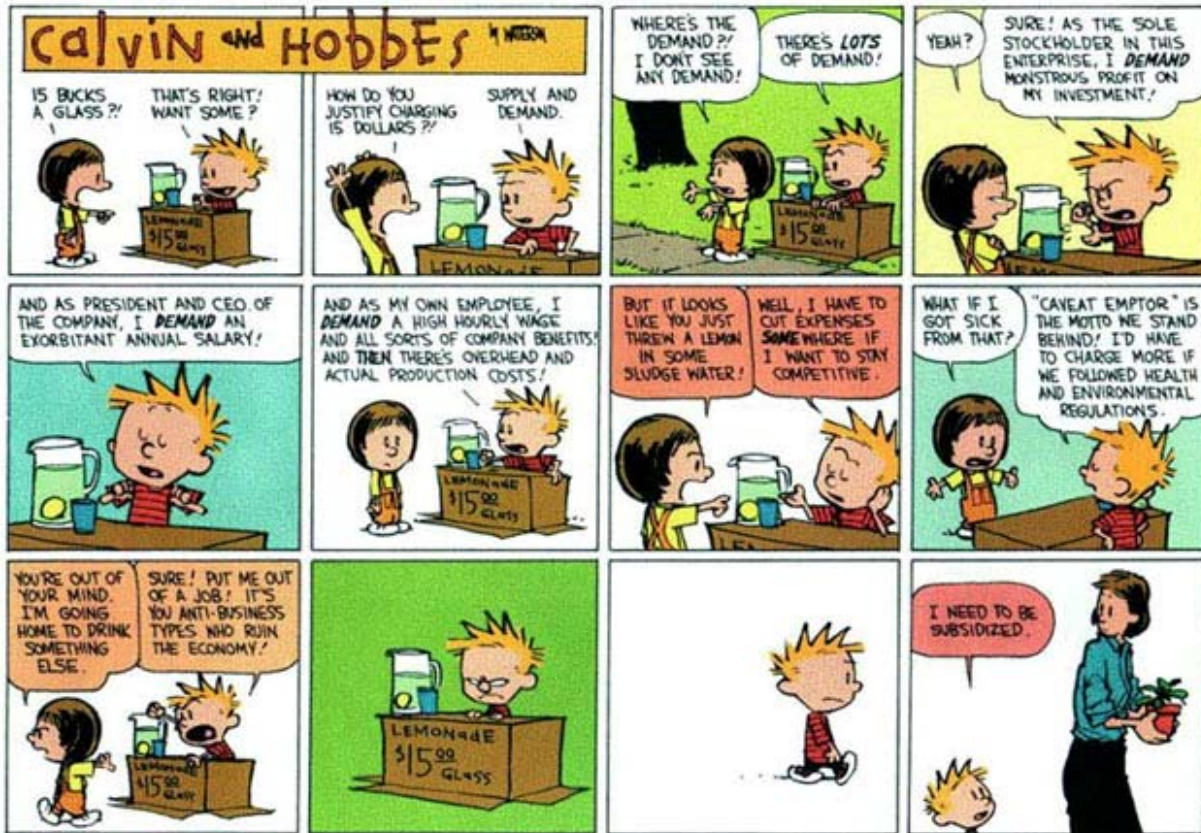
GOLD OUTPERFORMS STOCKS ... There's been a lot of attention given to the fact that gold has been rising in the face of a strong U.S. Dollar which is somewhat unusual. I believe that the gold rally is hinting that the dollar rally is running out of steam. Gold, however, has something else going for it which is a weak stock market. Gold usually shines when stocks are in trouble.

GOLD RALLIES VERSUS TREASURIES ... Another factor favoring gold is the recent plunge in Treasury bond prices. Since November, Treasuries and gold prices rose together (and yields plunged) on fears of deflation. Since the start of the new year, however, Treasury bond prices have been slipping on fears that the huge government bailout could push bond yields higher....With bond prices falling during January, however, the gold/bond ratio has swung upward in favor of gold.

CORPORATE BONDS CONTINUE TO GAIN GROUND ... Investment grade corporate bonds have also been gaining ground on Treasuries during January which I've pointed out before (on January 17 and 19)....Treasuries have slipped badly while corporate bonds have held up much better....(During the past month) investors are moving money out of Treasury bonds and into investment grade corporate bonds.

The great news for the 5T models is that we bought BUNCHES of corporate bonds last fall, before the rush to own them. Therefore we bought them at discounts and are now enjoying rising prices as demand for them is picking up.

By now all of us know that the U.S. and global economy is in a HUGE MESS. It all got started here and we have exported the problem around the world. Now, for a short and poignant lesson on how we got into this mess in the first place--sent to me by one of our clients. Enjoy.



Any questions? Enjoy the week.

All the best, PK

Paul

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Disclosure and Disclaimer - Updated last on August 13, 2007 by Paul Krsek:
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5T WEALTH MANAGEMENT manages accounts with various histories and investment objectives. Various accounts may be managed differently from time to time.

Krsek makes frequent reference to the model portfolios called Hatteras, Mendocino, Halifax, Bonavista, Fresnel and The New World. During 2005 Paul Krsek was appointed Chief Investment Officer of 5T WEALTH MANAGEMENT, and as such is responsible to make all trading and management decisions for all client accounts which are being managed according to a specific portfolio model. A description of each of our models can be found on our website at <http://www.5TWealth.com/choices.htm>.

Not all accounts managed by 5T WEALTH MANAGEMENT are "modeled" accounts. We strongly urge our clients to understand which model, if any, are being used to manage their accounts.

As of July 3, 2007 Lee O'Dwyer joined 5T WEALTH MANAGEMENT as a portfolio manager. Paul Krsek and Lee O'Dwyer frequently discuss investment ideas, model portfolio strategies and the investment policies of 5T WEALTH MANAGEMENT. But when it comes to the implementation of those policies Krsek is primarily responsible to manage the accounts that fit into each model portfolio description. He generally makes all final investment and trading decisions relative to those accounts that are considered to be "modeled." However, in Krsek's absence O'Dwyer does have the authority to trade all client accounts. He has been actively trading accounts in the various models since joining 5T WEALTH MANAGEMENT.

From time to time 5T WEALTH MANAGEMENT receives requests from clients to purchase securities that are not included in the model portfolio to which they are assigned. Effective May 24, 2006, 5T WEALTH MANAGEMENT has encouraged clients to hold such securities in a separate account for the client. Because 5T WEALTH MANAGEMENT is a "fee only" registered investment advisor" it charges its normal management fee for monitoring such securities in the separate accounts in which they are held.

5T WEALTH MANAGEMENT makes every effort to exclude securities that are 'requested by the client' from the modeled portfolio accounts.

The investment objectives of various accounts and models may be substantially different from one another. Therefore topics or investments mentioned in E-ellumination may or may not apply to specific managed accounts and/or models.

Trades or adjustments to accounts mentioned in ELLUMINATION may or may not happen in every account managed by portfolio managers at 5T WEALTH MANAGEMENT.

If you are not satisfied with the investment results in your account it is your responsibility to inform Krsek or Andreae and to discuss possible changes that can be made to the account to accommodate and satisfy your needs.

The assets held in managed accounts at 5T WEALTH MANAGEMENT may include stocks, bonds, cash, commodities, foreign exchange or mutual funds or exchange traded funds (ETF's), money market accounts or limited partnerships that represent the same. They are subject to market fluctuation and the potential for losses. The assets are not insured. The value and income produced by these investment products may fluctuate, so that an investor may get back less than they initially invested.

The portfolio managers at 5T WEALTH MANAGEMENT do not guarantee results.

Past performance should not be considered an indicator of potential future performance. If you do not consider yourself suitable, either emotionally or financially, to experience volatility and/or losses in financial markets, you should not invest.

From time to time Krsek lists the simple annual returns of the six model accounts in this newsletter. These accounts are "models" and do not represent the actual results accruing to individual accounts. Simple annual return does not represent "time weighted return" as reported individually to clients in their quarterly reports prepared using Centerpiece.

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