Southern Capital Perspective

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Interesting Facts About Market Corrections

From 1900 through 2014 there have been numerous market corrections. The American Funds Distributors, Inc. Published an article entitled *Market Fluctuations: What Past Market Declines Can Teach Us* that provides us with informative data about market declines.

A History of Declines (1900 – December 2014)

Type of Decline	Average Frequency	Average Length	Last Occurrence	Previous Occurrence
-5% or more	About 3 times a year	46 days	Dec 2014	Oct 2014
-10% or more	About once a year	115 days	Oct 2011	July 2010
-15% or more	About once every 2 yrs	216 days	Oct 2011	Mar 2009
-20% or more	About once every 3 ½ yrs	338 days	Mar 2009	Oct 2002

https://www.americanfunds.com

1. The article rightly points out that in the midst of a correction it is almost impossible to tell the difference between a minor decline and a prolonged correction.
2. It is almost impossible to accurately predict when market declines will occur.
3. The length of a market decline also has proven to be very unpredictable
4. Timing the market as to when to get in or out of the market to deal with corrections has also proven to be extremely difficult if not impossible.

This article clearly indicates that corrections are a normal part of market behavior; there is no proven way to predict the depth or the timing. What can be done is to take some remedial defensive steps when it is noted that a correction has begun and then take steps to reinvest for gains when there is evidence that the correction is ending.

"The Market Traditionally Bottoms in October"

This statement that has been uttered many times. Bob Pisani – a CNBC *On-Air Stocks* editor – said in his article *Here's What We Need for an October Bottom*:

> "There is some truth to this [market bottoming out in October]. The Stock Trader's Almanac calls October the 'bear killer' because it has turned the tide in twelve post-World War II bear markets: 1946, 1957, 1960, 1962, 1966, 1974, 1987, 1990, 1998, 2001, 2002, and 2011."

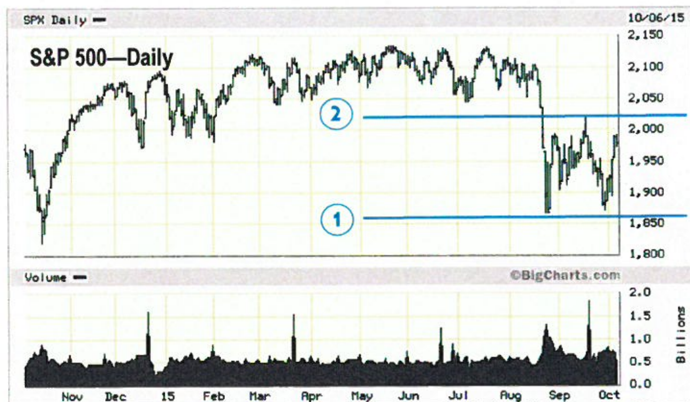
He went on to outline five items that he believes could bring about the much-desired "October bottom":

1. Growth stability in China — growth, NOT stimulus.
2. Stabilized oil prices — because oil and stocks often trade in tandem.
3. Need for the FED to be clear on what they are going to do about interest rates. Janet Yellen and the other FED heads need to make a decision and then clearly tell the public what that decision is.
4. The US Dollar needs to be stable. If the FED hikes rates, the dollar is likely to rise further which puts more pressure on US exporting companies.
5. Need continued growth in employment and, even more importantly, growth in wages.

Pisani goes on to say that we may not need all five elements to reverse the trend but we certainly need at least a few off them. One other item that he mentioned that could have a big impact would be better than expected corporate earnings (although improved corporate earnings have not been generally forecast). Hopefully, October 2015 will be added to the Stock Trader's Almanac as another in the list of "bear killers."

A PICTURE IS WORTH A THOUSAND WORDS

A graph cannot absolutely predict the future but it does give us an indication of what investors are doing with their money. This current graph of the S&P 500 is telling us some interesting facts that may give some insight as to future market direction.



Both charts found on http://bigcharts.marketwatch.com

1. The market plunged in late August and recently retested the low, then it bounced off of that low forming a double bottom. Investor money came in at the retest of the low giving some hope that the bottom is in for this correction. Now we must wait and see if there is a third test of the August-September lows. If there is a third test of the market lows and it fails, then we have an ongoing and more severe correction; but if the lows are not violated, then it reconfirms the validity of the market bottom and the market should be able to rally off of that third retest.
2. A trading range has been established between 1865 on the downside and 2025 on the upside which will remain in effect until it is violated on the upside or the downside.
3. The long-term graph indicates that the "bull market" that began in 2009 is still intact although it is getting very close to the trend line. *(See graph top right)*

The summary of the information that can be gleaned from the graphs is:

- first, the double bottom indicates that the low may be already in place for this correction.
- second, This correction is taking place within the context of the still ongoing "bull market" trend.

(The following section is being reprinted from our last newsletter because we feel it is important.)

WHY IS THIS DOWNTURN LIKELY TO BE A CORRECTION RATHER THAN A BEAR MARKET?

The reason we are probably not experiencing a bear market is because there are a number of positive factors that do not indicate conditions that are favorable for a bear.

- The US is still posting modest yet positive quarterly growth in the 2% annual rate range.
- Interest rates are near their all-time lows.
- The price of oil is around $40 a barrel.
- There are trillions of dollars on the sidelines waiting for the opportunity to be put to work.
- Of the five major investment categories (Cash, Bonds, Stocks, Commodities and Real Estate) Stocks still represent the best overall opportunity.

Outlook

Since August, we have been experiencing a downturn with a large dose of volatility. So far, the damage has been limited to the correction range (about a 10% decline) and as noted above we expect it to remain in that category as a correction rather than a full blown 'bear.' The various sectors of the economy (health- care, biotech, technology, financials, energy, etc.) have been taking their turns being sold off and no sector has been spared, but some have been hit harder than others. Usually the hardest hit sectors enjoy the largest rebounds when the correction ends.

Looking forward, we have a possible double bottom in place which may mark the lows for this correction. That does not mean that the market will quickly climb out of its trading range and move back to the levels during July. Usually, the market spends time inside of an established trading range building what is called a "base" from which it can rebound to the old highs and then go beyond to attain new highs. Right now the most important market movement is to verify that the downturn has been arrested. Remember, even if October proves to be the end of the downturn, we are still early in the month. There could be more volatility before the final resolution. After that, we can focus on looking forward to a possible "Santa Claus" rally that frequently occurs late in the year (but not always) to advance toward regaining the old highs. As always, what we expect to occur does not always happen, so we have to remain vigilant and ready to become more defensive if that is required.