First Trust
Monday Morning OUTLOOK
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Bullish, For the Right Reasons

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Last week, we forecast the S&P 500 will hit 2,375 at the end of this year (link), so we're obviously bullish on stocks. Our case is based on fundamentals, specifically, the long-term link between stocks, earnings, interest rates, and the economy as a whole. However, just because we're bullish, doesn't mean we agree with every bullish argument that's out there.

One theory making the rounds is that stocks do well in the third year of a president's term. Superficially, the idea seems appealing. Since 1947 the average annual gain on the S&P 500 has been 7.5% (all returns quoted exclude dividends). But, the S&P is up an average of 16.1% in the 17 years that have been the third in the presidential cycle. Sounds good so far, right?

But in 13 of those 17 times, the president was eligible to run again in the next election, and all but one of them pursued re-election. (The exception was Kennedy. Yes, both Truman and Johnson initially pursued re-nomination in 1952 and 1968, respectively.)

So, given that Obama can't run again, a better comparison would be the four times a sitting president couldn't run again: 1959, 1987, 1999, and 2007. And, guess what? The average annual return in those years was 8.4%, the median was 6.0%, so no significant difference with the long-term 7.5% average.

Another theory making the rounds is that years that end in a "5" are very good for equities. Dating back to at least 1925, there isn't a loser in the bunch and seven of those nine years generated gains of at least 20%.

We'd love to believe this has some larger meaning, but it's little more than numerology; we'd put more weight on a horoscope. Every year ends in one of ten different numbers, so when looking back, just through random chance, there are bound to be some that do well for a while and others that do poorly. Coincidence, that's all it is.

Equities have done well in years ending with a "5" for fundamental reasons, not magic. Massive tax rate cuts and lower government spending led to a long bull market that included 1925. After massive declines in 1929-32, the mid-depression rebound included 1935. In 1945, we won a little thing called World War II. Long bull markets were underway in 1955, 1985 and 1995. And then, a tight Fed caused the 1973-74 crash, while an easy Fed caused a 1975 rebound.

Remember the Super Bowl indicator? When old NFL teams win, "buy" and when old AFL teams win, "sell." It worked until the late 1990s, when Denver (AFL) was winning Super Bowls, yet stocks soared. Or the Hindenburg Omen – a technical indicator signaling stock market crashes – which has been triggered multiple times in the past several years.

Correlation isn't causation, but in a world full of data, people will find lots of meaningless statistical relationships that they become convinced have meaning. Don't forget the statistician who drowned crossing a river with an average depth of just 2 feet. So let's focus on fundamentals, instead, and right now they look good, whether the year ends in five, or not.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-14 / 7:30 am	Retail Sales – Dec	-0.1%	**-0.2%**		+0.7%
7:30 am	Retail Sales Ex-Auto – Dec	0.0%	**-0.1%**		+0.5%
7:30 am	Import Prices – Dec	-2.9%	**-3.2%**		-1.5%
7:30 am	Export Prices – Dec	-0.6%	**-1.0%**		-1.0%
9:00 am	Business Inventories – Nov	+0.2%	**+0.4%**		+0.2%
1-15 / 7:30 am	Initial Claims – Dec 10	292K	**291K**		294K
7:30 am	PPI – Dec	-0.4%	**-0.3%**		-0.2%
7:30 am	"Core" PPI – Dec	+0.1%	**0.0%**		0.0%
7:30 am	Empire State Mfg Survey – Jan	5.0	**5.0**		-3.6
9:00 am	Philly Fed Survey – Jan	19.1	**22.7**		24.5
1-16 / 7:30 am	CPI – Dec	-0.4%	**-0.4%**		-0.3%
7:30 am	"Core" CPI – Dec	+0.1%	**+0.2%**		+0.1%
8:15 am	Industrial Production – Dec	-0.1%	**-0.2%**		+1.3%
8:15 am	Capacity Utilization – Dec	79.9%	**79.8%**		80.1%
9:00 am	U. Mich Consumer Sentiment- Jan	94.3	**94.1**		93.6

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.