

# Financial Markets Update



## As Goes January, So Goes the Year?

As investors ring in the new year, some may see the occasional headline about the “January Indicator” or “January Barometer.” This theory suggests that the price movement of the S&P 500 during the month of January may signal whether that index will rise or fall during the remainder of the year. In other words, if the return of the S&P 500 in January is negative, this would supposedly foreshadow a fall for the stock market for the remainder of the year, and vice versa if returns in January are positive.

So have past Januarys’ S&P 500 returns been a reliable indicator for what the rest of the year has in store? If returns in January are negative, should investors sell stocks? **Exhibit 1** shows the monthly returns of the S&P 500 Index for each January since 1926, compared to the subsequent 11-month return (i.e., the return from February through December). A negative return in January was followed by a positive 11-month return about 60% of the time, with an average return during those 11 months of around 7%.

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### Financial Markets Performance

4th Quarter, 2017 (Source index and total return)

<b>Stocks &amp; Alternatives</b>	
Large U.S. Companies (S&P 500)	6.64%
Small U.S. Companies (Russell 2000)	3.34%
Large Non-U.S. Companies (MSCI Dev Mrkts)	4.17%
Small Non-U.S. Companies (FTSE Sm Cap)	1.18%
Emerging Markets’ Companies (MSCI Emerging)	3.22%
Commodities (Bloomberg Commodity Index)	4.71%
<b>Bonds</b>	
Long-Term U.S. Treasuries (Barclays U.S. Long Gov)	2.37%
Total U.S. Market (Barclays U.S. Agg Bond)	0.39%
Short-Term U.S. Treasuries (Barclays U.S. Short Gov)	0.23%

### Financial Markets Valuation

Values calculated with preliminary data available as of Jan, 2018

<b>U.S. Stocks (S&amp;P 500)</b>	
Price to Earnings (P/E) Ratio	22.87
Price to Book (P/B) Ratio	3.18
Earnings Yield	4.37%
Dividend Yield	1.91%
Corporate Earnings Retention Rate	56.30%
<b>Bond Yields</b>	
2 Year U.S. Treasury Note	1.89%
10 Year U.S. Treasury Note	2.40%
30 Year U.S. Treasury Bond	2.74%
<b>Non U.S. Stocks (MSCI World ex USA All Cap)</b>	
Price to Earnings (P/E) Ratio	17.32
Price to Book (P/B) Ratio	1.72
Earnings Yield	5.77%
Dividend Yield	3.06%
Corporate Earnings Retention Rate	46.93%

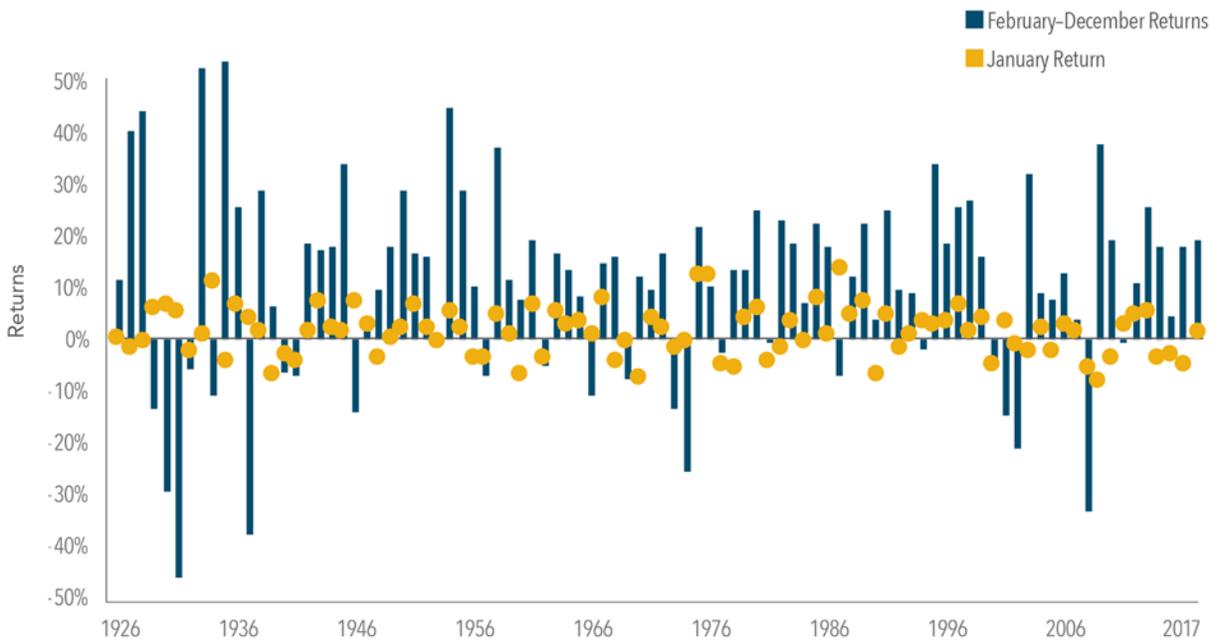
### Economic Data

Values as of Dec, 2017 (Inflation and GDP annual changes)

US Inflation Rate (All Items)	2.1%
US GDP Real Growth Rate	2.3%
US Unemployment Rate	4.1%
US Industrial Utilization Rate	77.9%



## Exhibit 1. January Return vs. Subsequent 11-Month Return of the S&P 500 Index 1926-2017



In US dollars. S&P 500 Index data provided by Standard & Poor's Index Services Group. Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

This data suggests there may be an opportunity cost for abandoning equity markets after a disappointing January. Take 2016, for example: The return of the S&P 500 during the first two weeks was the worst on record for that period, at -7.93%. Even with positive returns toward the end of the month, the S&P 500 returned -4.96% in January 2016, the ninth-worst January return observed from 1926 to 2017. But a subsequent rebound of 18% from February to December resulted in a total calendar year return of almost 13%. An investor reacting to January's performance by selling out of stocks would have missed out on the gains experienced by investors who stuck with equities for the whole year. This is a good example of the potential negative outcomes that can result from following investment recommendations based on an "indicator."



## Conclusion

Over the long term, the financial markets have rewarded investors. People expect a positive return on the capital they supply, and historically, the equity and bond markets have provided meaningful growth of wealth. As investors prepare for 2018 and what the year may bring, we should remember that frequent changes to an investment strategy can hurt performance. Rather than trying to beat the market based on hunches, headlines, or indicators, investors who remain disciplined can let markets work for them over time.

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Data sources for this report included Standard and Poor's and Dimensional Fund Advisors LP. This information is provided for educational purposes only. Diversification does not assure a profit or prevent risk of market loss. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.

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