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The January Effect: History Rhymes Again

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So far, so good in 2012

- Slight acceleration in economic strength
- Decline in the unemployment rate
- Deceleration in consumer inflation
- Durable goods orders up nicely
- However, 4th Quarter 2011 GDP disappoints

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See Further

O, wind, if winter comes, can spring be far behind?

Percy Bysshe Shelley

The U.S. economy and the capital markets were off to a good start in first month of 2012 amid unusually warm and dry weather here in the middle of America.

We have been calling for a slight acceleration in economic strength for 2012, along with a slight decline in the unemployment rate coupled with a deceleration in inflationary pressure. So far, the majority of the economic releases in January confirm our view. The U.S. economy seems to be heading in the right direction, with slight increases in activity.

Here is a recap of the major economic releases which occurred during the month of January and some quick thoughts as to the importance of each factor:

<u>Date</u>	<u>Economic Release</u>
Jan. 6	Employment/Unemployment

Non-farm payrolls increased by 200,000 in December. This was a good report, as demographically, our nation needs to grow payrolls by 140,000 per month to stay up with increased population. The U.S. unemployment rate dropped to 8.5%.

Jan. 12	Retail Sales
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Retail sales for the month of November were up 1.3% from October and 3.9% from the previous November. Excluding autos, which tend to be volatile, retail sales were up 4.2% from the previous month and 6.7% from the previous year. It appeared U.S. consumers were tired of being frugal.

Jan. 13	Consumer Sentiment
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The University of Michigan survey of Consumer Sentiment for early January increased to 74, from a reading of 67.7. The consensus forecast was calling for an increase to 72. The sentiment index came in at the best reading since May of 2011. This was another sign that consumers' view of the world is improving, backing up the positive retail sales data.

Jan. 18 Industrial Production

Industrial production increased 0.4% in December after falling 0.3% in November. For the 4th quarter of 2011 as a whole, industrial production rose by 3.1% on an annualized basis, its 10th consecutive quarterly gain. This was a decent report, reversing the negative report from the previous month.

Jan. 19 Consumer Prices

Consumer prices were unchanged in December from November. Over the last 12 months, the “all-in” inflation rate was 3.0%. Prices excluding food and energy rose 0.1% for the month and 2.2% over the last 12 month period. The report was in-line with our thoughts that inflation should show a slight retreat during 2012.

Jan. 19 Housing Starts

For the month of December, starts came in at an annual rate of 657,000, down 4.1% from the previous month. For the entire year, housing starts came in at 607,000, up 3.4% from 2010, as the multi-family segment grew by 53% for the entire year (in line with our earlier forecast). In a positive note, single-family housing starts increased by 4.4% for the month of December. Additionally, single family housing starts increased by 11.4% during the 4th quarter, overall.

Jan. 26 Durable Goods Orders

Durable goods orders increased nicely during December, up 3.0%. This outstripped the consensus forecast of 2.4%. Core orders (excluding aircraft) increased by 2.9%, reversing poor numbers released in both October and November. This report confirmed the industrial production data from earlier in the month, showing industrial strength should continue into the immediate future.

Jan. 27 Gross Domestic Product

GDP (gross domestic product) data was released, showing the U.S. economy grew during the 4th quarter by 2.8% on a real, annualized basis. This number was disappointing to many, as a number of pundits were looking for a release well above the 3% level. As of this release, the U.S. economy grew by 1.7% on

a “real” basis for the entire year 2011, in-line with our forecast. We hold the view that the U.S. economy should show a slowing trend during the 1st half of 2012, as compared to the 4th quarter.

Jan. 30 Personal Income

Personal income increased by 0.5% during the month of December. Personal consumption expenditures increased by 0.1% during the period, raising concerns that buoyant consumer spending may be showing new signs of weakening. The savings rate probably increased by 0.4% during the month.

Since 1949, when the S&P 500 has been up at least 4% during the month of January, the average gain for the remainder of the year has been 15.5%.

So, let's tally the results. During the month of January, the majority of the economic reports continue to show a picture of increased economic vitality. Strength appears to be increasing slightly, but not rapidly. We stand by our view that overall GDP growth will probably diminish over the next quarter or two, but still remain positive. We believe the economy is growing rapidly enough to provide job growth, albeit slow. Inflation appears to be receding. We see no changes necessary in our overall macroeconomic forecast.

January Effects – Positive Market, Anyone?

We like history. Not that history repeats itself, but sometimes it rhymes. The S&P 500 index was up 4.4% during the month of January. This was a very good month. As a matter of fact, since 1950 there have only been 12 occurrences (out of 62) which have been stronger than last month. An old Wall Street saying is that as January goes, so goes the rest of the year. Indeed, the “January Effect” has historically been one of the more reliable technical indicators, based on historical averages.

Consider that:

- Since 1949 (62 observations), the market has been up 38 times and down 24 times. Looking at those 38 years when the market showed a positive return

in January indicates that 33 times (or 87% of the time) the market has continued to rise for the next 11 months of those years. The average gain has been 11.9% (including the years when the indicator didn't work and the market showed negative returns for the remainder of the year).

- Furthermore, since 1949, when the S&P 500 has been up at least 4% during the month (once again the market was up 4.4% last month), the average gain for the remainder of the year has been 15.5%.

February – The Cruellest Month?

When reviewing such indicators as one adjusts one's asset allocation mix, it may be helpful to keep a long term perspective in mind. On average, February has historically tended to be a down month in years following a good January return.

As a matter of fact, our research shows there were no positive equity market returns in February for the last 20-, 50- and 100-year periods after a rally in January. So, while we believe it may be wise to take a constructive stance for the remainder of the year, we believe it is always good to look carefully before "leaping".



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