LEAPS OF FAITH
Mixed Messages from Leap Years and Moving Averages

For the week ending 2/26/16, stocks staged a recovery, as the S&P 500 gained 1.6%, lifting nine of its 10 sectors, led by Consumer Discretionary and Materials, while Consumer Staples and Energy rose 0.4%, and Utilities fell 0.1%. What’s more, 87% of the sub-industries in the S&P 500 rose on the week, led by Aluminum, Computer & Electronics Retail, and Household Appliances. The biggest losers included Food Distributors, Integrated Oil & Gas, and Soft Drinks.

Leap Day Performances
Leap years occur every four years, increasing the calendar-year count to 366 days from 365. As a result of this oddity, many frequently ask “How has the S&P 500 performed when the stock market was open on Feb 29?” There have been 17 times that the markets were open on Feb 29 since 1928. On these days, the S&P 500’s return didn’t offer much of a performance clue, as it fell an average of only 0.1%. However, it did offer a better directional idea of the likely action for the day, as the S&P 500 fell in price nearly two out of every three times. For the full year, however, the market’s performance on Feb 29 also didn’t offer much of a guide between its one-day performance and that for the entire year.

Correction Conclusion?
Many say that the abundance of sub-industries in the S&P 500 that are trading below their 40-week moving average offers a contrarian “buy” signal. As of February 26, only 33% of the 129 sub-industries in the S&P 500 are above their 40-week moving average, which is an improvement from January 15 when only 13% of sub-industries were above their average, which is an improvement from January 15th.
moving averages. (These groups included: Brewers, Distillers & Vintners, Electric Utilities, Electronic Equipment & Instruments, Food Distributors, Gas Utilities, Health Care Supplies, Home Entertainment Software, Internet Retail, Internet Software & Services, Leisure Products, MultiUtilities, Residential REITs, Restaurants, Retail REITs, Systems Software, and Tobacco.)

At first, one might think that the worst is behind us, as this low point touched two standard deviations (2SD) below the mean, a level consistent with the conclusions of corrections over the past 20 years. Indeed, in the six and 12 months after dipping below this level during the corrections of 2002-03, 2010 and 2011, the S&P 500 climbed in price an average 18% and 28%.

**Bear-Market Head Fake**

However, during the last two bear markets (2000-02 and 2007-09) the percentage of sub-industries trading above their 40-week moving average fell below the 2SD level twice: 1) immediately after the September 11, 2001 terrorist attacks, and then again on 7/12/01, three months before the bear-market bottom, and 2) in mid-January 2008, and then again on 10/3/08.

So there you have it. Today, the market will open for trading on its 18th leap day since 1928. Should history repeat itself, and there’s no guarantee it will, the S&P 500 will likely end lower on the day, but offer no clue as to its possible full-year return. Also, history shows that contrarian investors may be disappointed to find out that while an extreme absence of sub-industries in the S&P 500 that were trading above their 40-week moving averages correctly signaled the end of corrections in 2003, 2010 and 2011, they were premature in suggesting the end of bear markets. Indeed, from each of the two initial times that a potential “buy” signal was registered during the bear markets of 2000-02 and 2007-09, to the end of those bear markets, the S&P 500 declined by an additional 17% and 48%, respectively. As a result, little encouragement can be garnered from leap years or an absence of S&P 500 sub-industries trading above their 40-week moving averages.
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★★★★★ 5-STARS (Strong Buy):
Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ 4-STARS (Buy):
Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ 3-STARS (Hold):
Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

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Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

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Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

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A+ Highest B Below Average
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A- Above Average C Lowest
B+ Average D In Reorganization

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