Aberdeen Investment Management, LLC

Wildebeest Tracks

By: Jeb B. Terry, Sr.

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"How about a little Valentine's Bull Run, Baby?"

Enjoy a little data that indicates this rally looks real and sustainable

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- Extended bull phases in the stock market have tended to experience a prolonged period of 40+ consecutive trading days without a daily price correction of 1% or more early in the bull phase. . - 02-09-2012 19:40:41 PM

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Current stock market rally is the best in years. How long and how high can it go?

02-09-2012 19:50:01 PM

January 2012 saw the S&P 500 rise 4.4%. According to the Stock Trader's Almanac (**here**), a typical move for January has been a gain of 1.3%. **It was the best performing month of January for the S&P 500 in 15 years since 1997**. January 1997 rose 6.1%. The Q1 1997 gain for the S&P 500 was 2.2% therefore the S&P 500 actually declined from January to March 31. The full year 1997 saw the S&P 500 rise 31%.
If Q1 ended today, the S&P 500 would be up 7.34%, **the best Q1 performance in 14 years** since 1998. Since 1927 there have only been 18 years with as strong or stronger a Q1 gain. The market went on to have a full year gain in 88% of the cases. The average full year gain was 15.8%. In 1998 the S&P 500 gained 13.5% in Q1 and rose 26.7% for the full year.

Strong Q1 Price Performance since 1927		
S&P 500 Up Over 7% in Q1		
	Q1 Start	Full Year
Count	18	
% of Years		21%
% of Years Positive following Q1		88%
Average	12.6%	15.8%
Median	12.1%	20.1%
Max	21.6%	45.0%
Min	7.3%	-47.1%

Market lore has it that **if January is positive then the full year will be positive and vice versa**. Since 1950, there have been only 7 years where this relationship has not been true implying 88.5% accuracy. Notably, the indicator was wrong in 2009 and 2010 when the market had a loss in each January but went on to have an above average gain for the full year.
The current rally in the S&P 500 is up 22.5% since the bottom on October 3, 2011. Birinyi Assoc. (**here**) calculates that **the average rally since 1945 has seen a gain of 37.1% over a 327 day period.** The implication is that the current rally can last another 200 +/- days and rise another 14% to 1,543 by around August 25, 2012. *Jeb Terry, Sr. February 9, 2012*

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Extended bull phases in the stock market have tended to experience a prolonged period of 40+ consecutive trading days without a daily price correction of 1% or more early in the bull phase. .

02-09-2012 19:40:41 PM

The linked article and chart by Bespoke Investment Group (**here**) displays the frequency of periods of such consecutive day periods since 1980. **The market has currently gone 27 days without a 1% + correction.** It needs to make it to February 24 to satisfy the 40 day hurdle. **IF** (a big IF) attaining 40 days without a 1% correction is a valid indicator that the market is in fact in a new bull phase, then the market might be expected to rise for a period defined in quarters if not years. *Jeb Terry, Sr. February 9, 2012*

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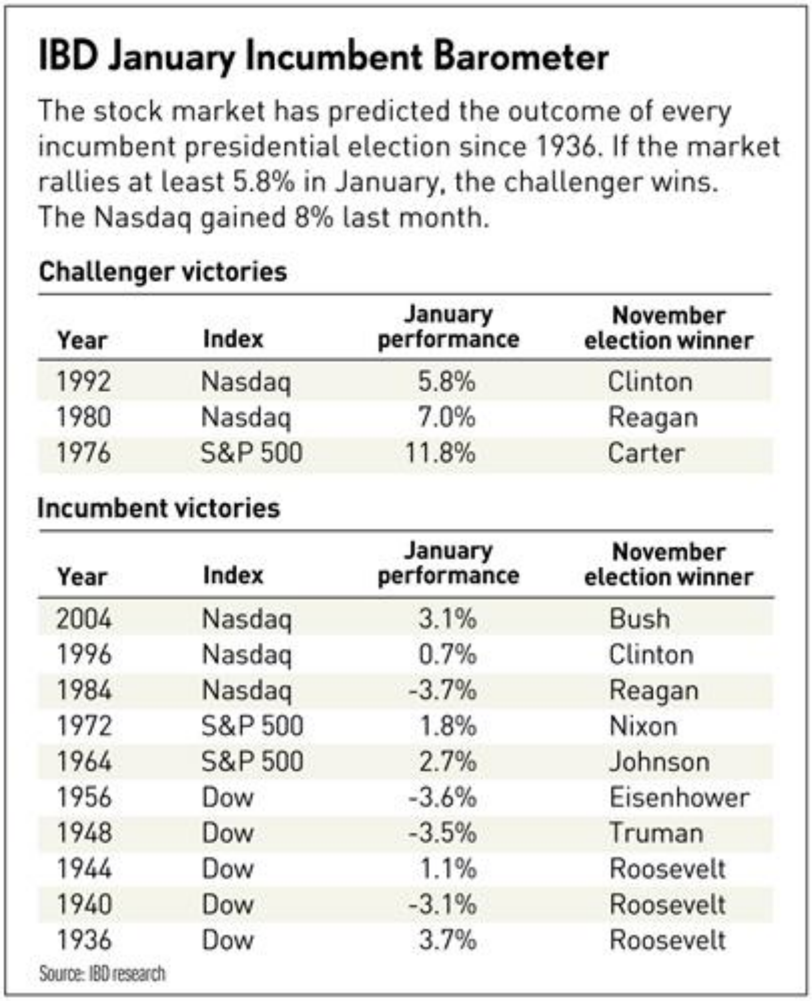
Election years tend to be positive for the stock market.

02-09-2012 19:28:27 PM

The S&P 500 has been up 12 of the last 15 Presidential election years since 1952 by an average of 8%. In addition, the outcome of the election has been coincidental if not predicted by the performance of the stock market in January of the Presidential election year. As the following table from Investor's Business Daily points out, if a major market index is up by at least 5.8% in January then the incumbent loses and the challenger wins. The supposition is that since the NASDAQ gained 8% in January that President Obama will lose in November. *Jeb Terry, Sr. February 9, 2012*



IBD January Incumbent Barometer

The stock market has predicted the outcome of every incumbent presidential election since 1936. If the market rallies at least 5.8% in January, the challenger wins. The Nasdaq gained 8% last month.

Challenger victories

Year	Index	January performance	November election winner
1992	Nasdaq	5.8%	Clinton
1980	Nasdaq	7.0%	Reagan
1976	S&P 500	11.8%	Carter

Incumbent victories

Year	Index	January performance	November election winner
2004	Nasdaq	3.1%	Bush
1996	Nasdaq	0.7%	Clinton
1984	Nasdaq	-3.7%	Reagan
1972	S&P 500	1.8%	Nixon
1964	S&P 500	2.7%	Johnson
1956	Dow	-3.6%	Eisenhower
1948	Dow	-3.5%	Truman
1944	Dow	1.1%	Roosevelt
1940	Dow	-3.1%	Roosevelt
1936	Dow	3.7%	Roosevelt

Source: IBD research

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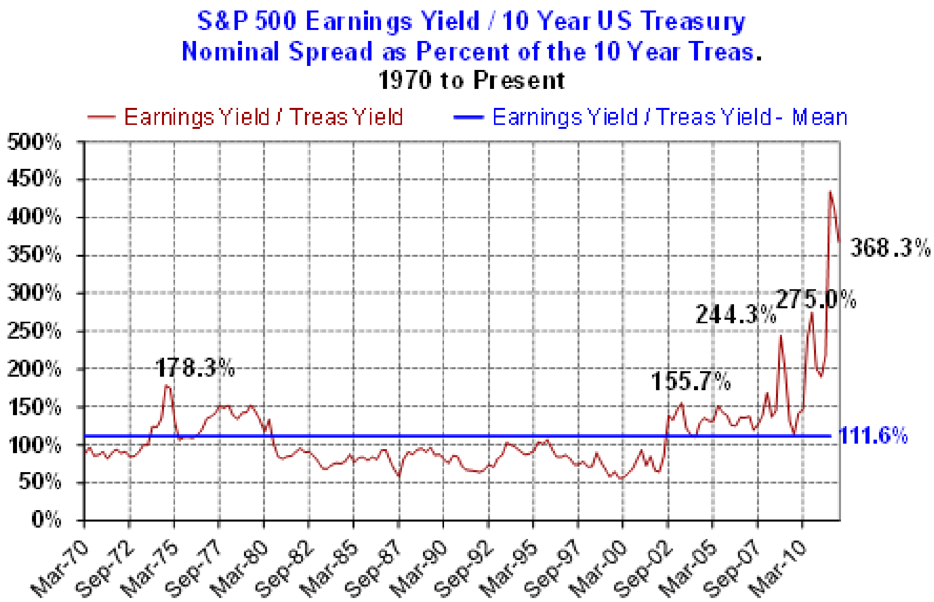
An extended spread in the S&P 500 earnings yield over the 10 year Treasury rate has signaled a prolonged stock market rally in the past.

02-09-2012 19:22:08 PM

The current earnings yield for the S&P 500 is 368% greater than the 10 year Treasury rate. With the exception of a brief period last fall when there was a panic to own Treasuries, this degree of disparity between the earnings yield and the risk free interest rate on Treasuries was not only unprecedented but unthinkable.



There have only been 14 quarters since 1970 when the earnings yield has exceeded the 10 year Treasury rate by more than 150%. In 11 of those instances (78.6% of the time) the S&P 500 went on to gain an average of 20.2% in the ensuing 12 months. The average next 12 month gain for all instances was 13% - better than the average annual gain in the market. (I discussed this topic in a prior post **here**). *Jeb Terry, Sr. February 9, 2012*

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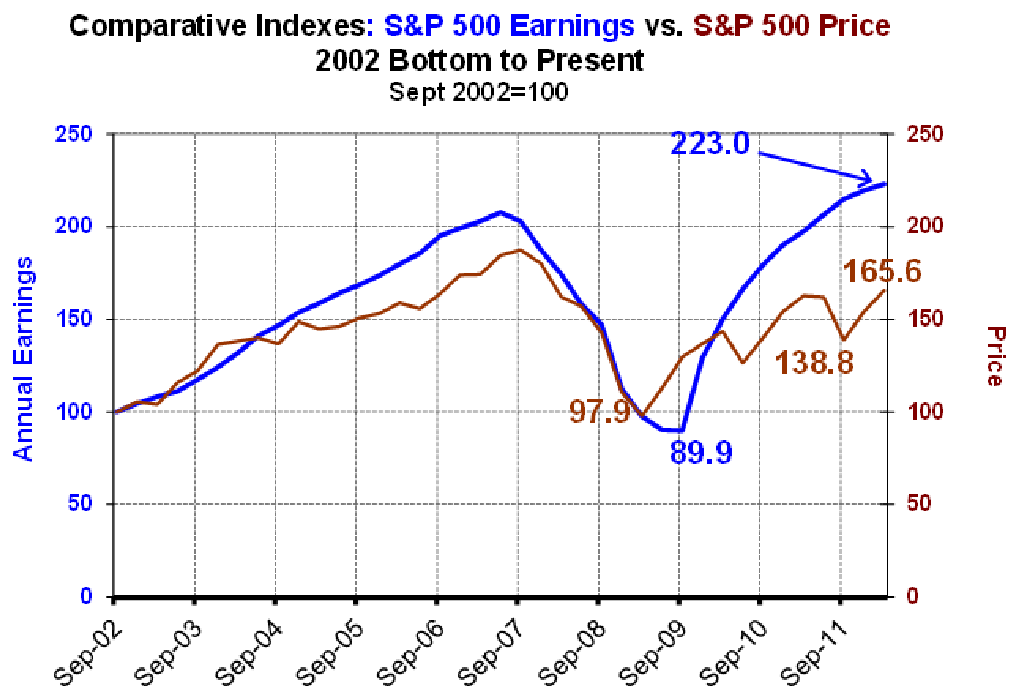
Earnings have outpaced stock prices. Something has to give.

02-09-2012 19:18:32 PM

Since the market low in 2009, S&P 500 earnings are up 148%. The S&P 500 price is up only 69%. This is unnatural. Either earnings must contract or stock prices must rise. Earnings growth might be slowing but they are unlikely to contract. Accordingly, stock prices have plenty of upside to get back on track with earnings growth. *Jeb Terry, Sr. February 9, 2012*



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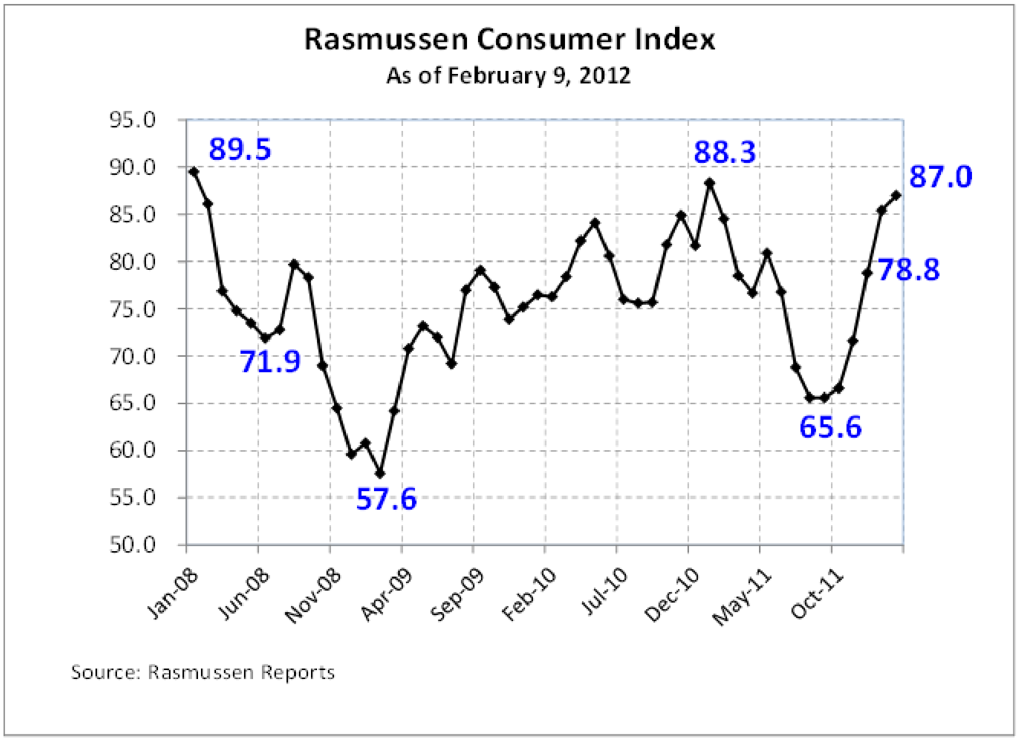
Consumer confidence is returning. Rising confidence goes with rising P/E ratios and therefore, rising stock prices

02-09-2012 19:15:48 PM

I have commented in the past (here) about the correlation of consumer confidence and the S&P 500 P/E ratio. Recent work by GaveKal Capital has also shown there is an 81% correlation between consumer confidence and the P/E ratio. The following chart from Rasmussen Reports reveal there has been ~33% improvement in consumer confidence since Sept/Oct of last year. While the P/E ratio has increased also, it is nowhere near the 17.3X level that was measured back in Jan. 2008 when Rasmussen reported that confidence was near the current level or the 15X at Dec. 2010. Confidence, while improving, is still sharply lower than four years ago. This confidence measure was as high as 93.1 this month. It was consistently above 120 from 2002 until 2008. *Jeb Terry, Sr. February 9, 2012*



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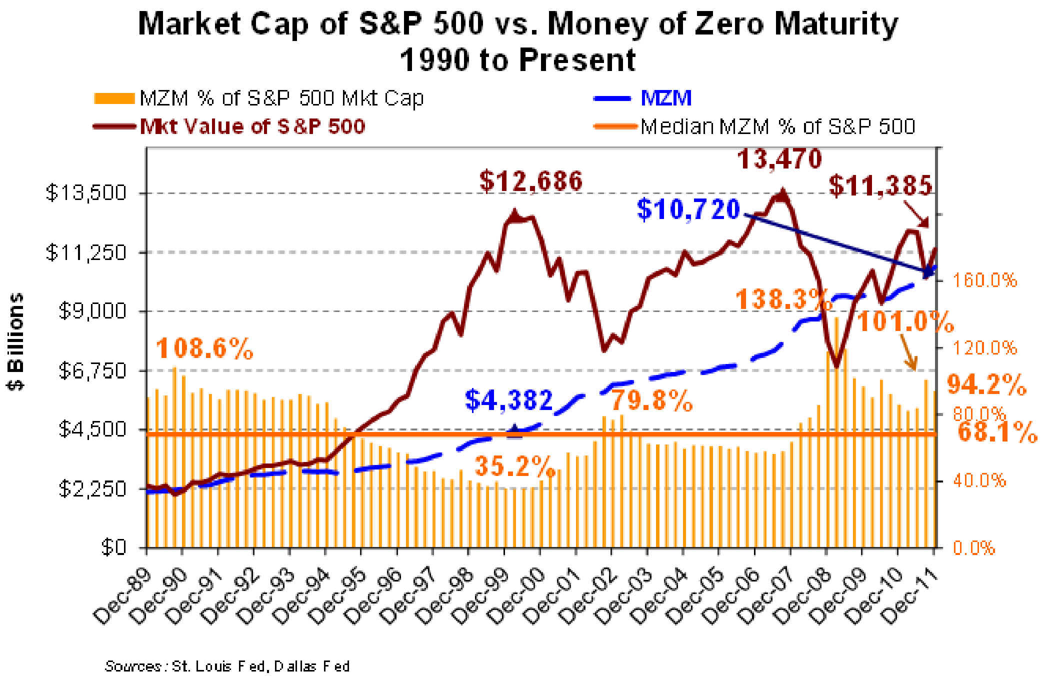
The amount of cash on the sidelines remains at near panic levels

02-09-2012 19:13:36 PM

Money of zero maturity (T-Bills, cash in banks etc.) is equal to approximately 94% of the market value of the S&P 500. The median percentage going back to 1990 has been 68%. **The elevated level of cash remains consistent with a market low - not a top and not a middle**. A movement of $100 billion out of MZM and into the market could translate into $1 trillion in increased stock market value. It is entirely possible to see more than $100 billion flow back into equity mutual funds. There was $134 billion withdrawn from equity mutual funds in 2011. There has been approximately $8 billion withdrawn year to date (as of Feb.1, 2012). *Jeb Terry, Sr. February 9, 2012*



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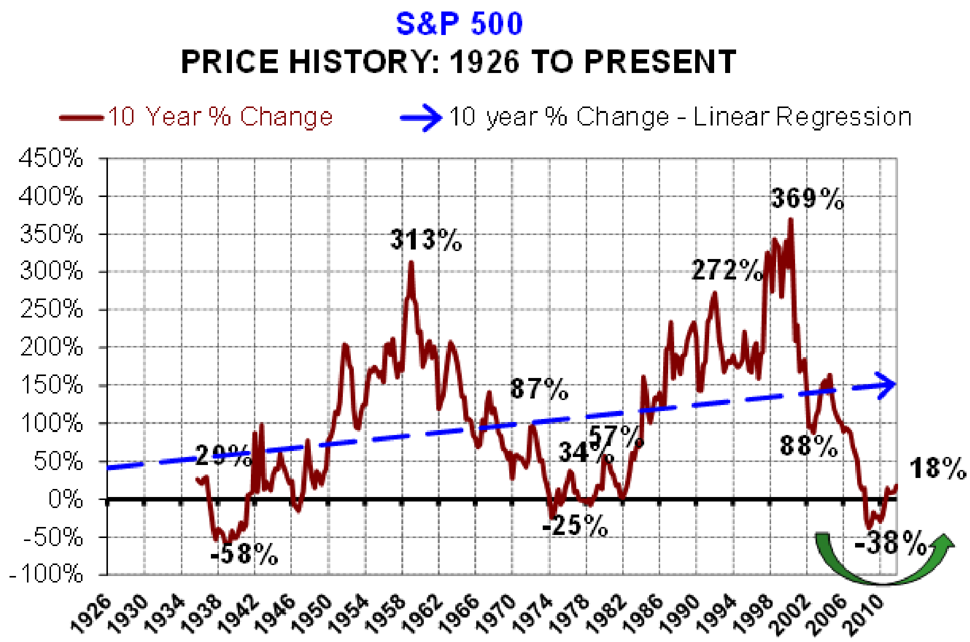
"Bass akwards" . . . Too much money in cash, too little in stocks

02-09-2012 19:10:52 PM

Despite all the fear and angst about Europe, the U.S. fiscal crisis and political uncertainties **there is too much money in cash and too little money in stocks**. It is perverse that investors have poured capital into the least productive sector of the economy . . . the government run public sector . . . and fled from the most productive sector of the economy . . . the private sector. While the stock market has had a nice recovery since its low in 2008, it is only starting its recovery in its long term return. *Jeb Terry, Sr. February 9, 2012*



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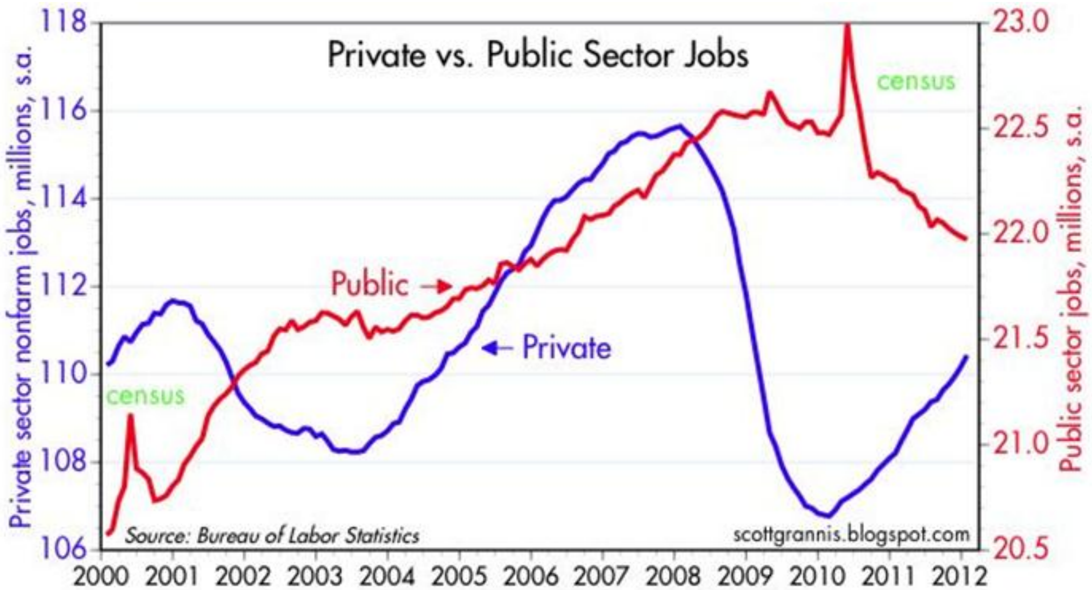
[Public sector jobs declining, private sector jobs rising - a very positive development . . .]

02-08-2012 14:25:37 PM

The labor report last week contained some very encouraging news in addition to better than expected overall job growth. As the following chart displays very well (courtesy of Scott Grannis at [Calafia Beach Pundit]), we are experiencing sharp growth in private sector jobs and a persistent decline in public sector jobs. This is a fundamentally positive development with ramifications for the broken U.S. fiscal policy. *Jeb Terry, Sr. February 7, 2012*



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We would be honored to have you among our followers and to hear your feedback.

Sincerely,

Jeb Terry
Aberdeen Investment Management