

# Coping With the Frustrating Market



Charles Rotblut, CFA  
AAI Journal Editor

Mr. Market started 2016 on the wrong foot, and his mood has gotten worse throughout this month. Barring a big rebound next week, this will be the third consecutive year the S&P 500 has declined in January—something that has only happened two other times since 1950. The index may also come close to breaking, or even break, the record for the worst January return since at least 1950, based on data from the Stock Trader's Almanac.

Some of the culprits are identifiable. China's economy is slowing. Oil prices are slumping. Analysts project fourth-quarter S&P 500 earnings and revenues to be down. Small-cap stocks declined last year and are now in a bear market. Tensions in the Middle East are not showing signs of cooling down. There are other things weighing on sentiment that are harder to blame directly, but they may not be necessarily helping either: the possibility of further rate hikes by the Federal Reserve, turbulence in the junk bond markets and stock valuations that are still not cheap.

Lost among the headlines is the fact that Mr. Market's tantrums tend to be short-lived in nature. They occur, stocks drop, investors' nerves become frayed, and then often without much advance notice, Mr. Market returns to being in a good mood. Nothing in the 10.1% historical annualized return of large-cap stocks promises that the ride to building and preserving wealth will be smooth. It's bumpy, filled with potholes and steep hills. But the road does ascend over the long term. To help you stick with your plan, I have a few suggestions for coping with the currently frustrating market environment.

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## **Worth Reading on the AAI Blog**

As you have likely heard, singer-songwriter David Bowie recently died. As long-time fans, both my

wife and I were sad to hear the news. Bowie was creative in many aspects of life, including finance. In his “From the President” commentary, John Bajkowski discusses how **Bowie bonds paved the way for other forms of securitized debt.**

## More on AAll.com

- **Managing Cash Flow in Retirement** - Harold Evensky and Deena Katz suggest that holding one year’s worth of expenses in cash protects immediate needs while still enabling the portfolio to grow over the long term.
- **What Steps You Should Take When Your Stock’s Price Falls** - Annuities defend against long life spans, but other sources of income can make lump sums more attractive.
- **What’s Strategy for Coping with Turbulent Markets?** - Tell us on the AAll.com Discussion Boards.

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## AAll Sentiment Survey

This week’s rise in bearish sentiment puts pessimism within the 70 highest readings in the survey’s history. Although optimism improved, bullish sentiment ranks remain within the range of its 60 lowest readings. **More about this week’s results.**

## What’s Trending on AAll

1. **Being Wrong and Still Making Money**
2. **What Steps You Should Take When Your Stock’s Price Falls**
3. **16 Financial Ratios for Analyzing a Company’s Strengths and Weaknesses**

## The Week Ahead

More than 130 members of the S&P 500 will report during what will be one of the busiest weeks for fourth-quarter earnings season. Included in this group will be Dow Jones industrial average components McDonald’s (**MCD**) on Monday; 3M Co. (**MMM**), Apple (**AAPL**), DuPont (**DD**), Johnson & Johnson (**JNJ**) and Procter & Gamble Co. (**PG**) on Tuesday; Boeing Co. (**BA**) and United Technologies Corp. (**UTX**) on Wednesday; Caterpillar (**CAT**), Microsoft Corp. (**MSFT**) and Visa (**V**)

on Thursday; and Chevron Corp. (**CVX**) on Friday.

The Federal Open Market Committee will hold its first meeting of the year on Tuesday. The committee will release its statement Wednesday at 2 p.m. ET.

Elsewhere on the economic calendar, the Conference Board's January consumer confidence survey and the November S&P Case-Shiller housing price index will be released on Tuesday. Wednesday will feature December new home sales. December durable goods orders and the National Association of Realtors' December pending home sales index will be released on Thursday. Friday will feature the first estimate of fourth-quarter GDP, the January Chicago purchasing manager's index and the University of Michigan's final January consumer confidence survey.

The Treasury Department will auction \$26 billion of two-year notes on Tuesday, \$35 billion of five-year notes and \$15 billion of two-year floating-rate notes on Wednesday and \$29 billion of seven-year notes on Thursday.

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