Market Recap

Bear Market or Correction?

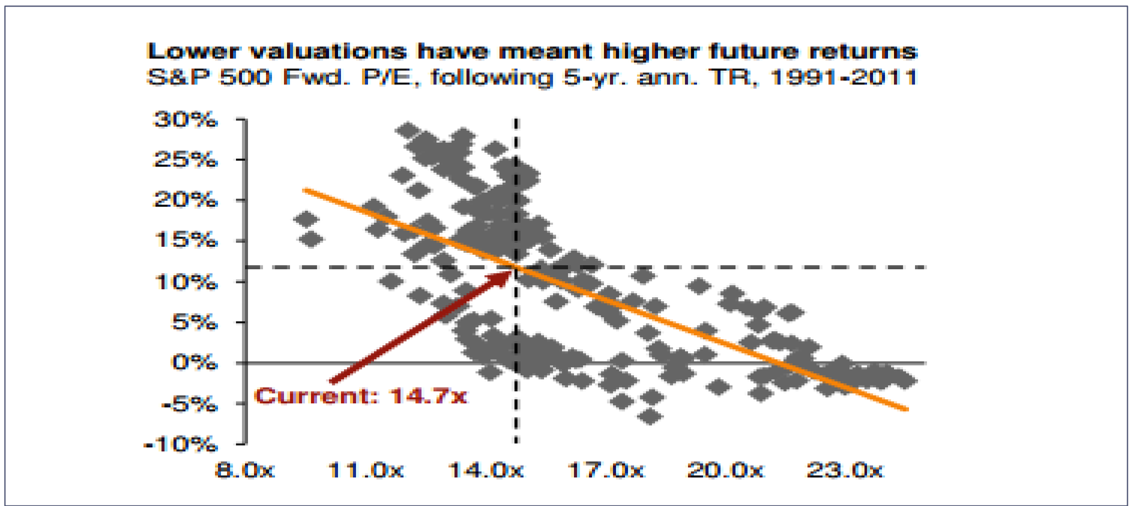
Bear Markets vs Corrections (1/1/80 to 1/22/16)

Type	Number	Avg Return	Average time from peak to trough	Avg Time from Trough to Recovery
Bear Market	7	-33.40%	373 Days	798 Days
Correction	12	13.70%	87 Days	121 Days

Type	Fastest time peak to trough	Slowest time peak to trough	Fastest time trough to recovery	Longest time trough to recovery
Bear Market	60 Days	926 Days	85 Days	1928 Days
Correction	28 Days	124 Days	46 Days	359 Days

Source: Rodlauer

Historical 5-Year Returns Based on P/E Ratios



Source: JP Morgan

A market "correction" is defined as a 10% pullback from a previous level, whereas a "bear market" is a 20% pullback from market highs sustained for at least two months. Both of these market events are relatively common; since 1980, the market has faced 12 corrections and 7 bear markets, roughly one every two years. Today, the S&P 500 sits 10.2% off recent highs at 1917. As we teeter around correction territory, a great deal of discussion lately has centered on whether or not we are heading past that and towards a bear market. While current U.S. economic data continues to suggest not, investors remain cautious. Nonetheless, history reveals that both levels of pullback – by their frequency and inevitability – have been integral to the "1 step back, 2 steps forward" pattern of past equity market advances. The S&P 500 has spent 40% of its existence (88 years) in some sort of correction or bear market, yet has produced an annualized return of approximately 10%, outperforming both bonds and cash.

To assess how 'expensive' a stock is relative to peers, the overall market, and past time periods, one common metric is the Price/Earnings Ratio. A company must either increase its earnings per share, or see an expansion of its P/E multiple, in order for shares of common stock to gain value. In that respect, P/E multiples can often be a proxy for market sentiment – if investors believe the economy is strong and will lead to future growth, a higher multiple is assigned to today's given level of earnings. Historically, however, valuation metrics have been less of a predictor of stock price movements in the coming year, but a strong predictor of returns over a five-year period. A forward market P/E ratio of 14.7x (today's level) has led to a 12% annualized return in the following five years. Thus, while stocks could move in either direction over the next 12 months, current valuation levels indicate relatively strong returns over a longer time horizon.

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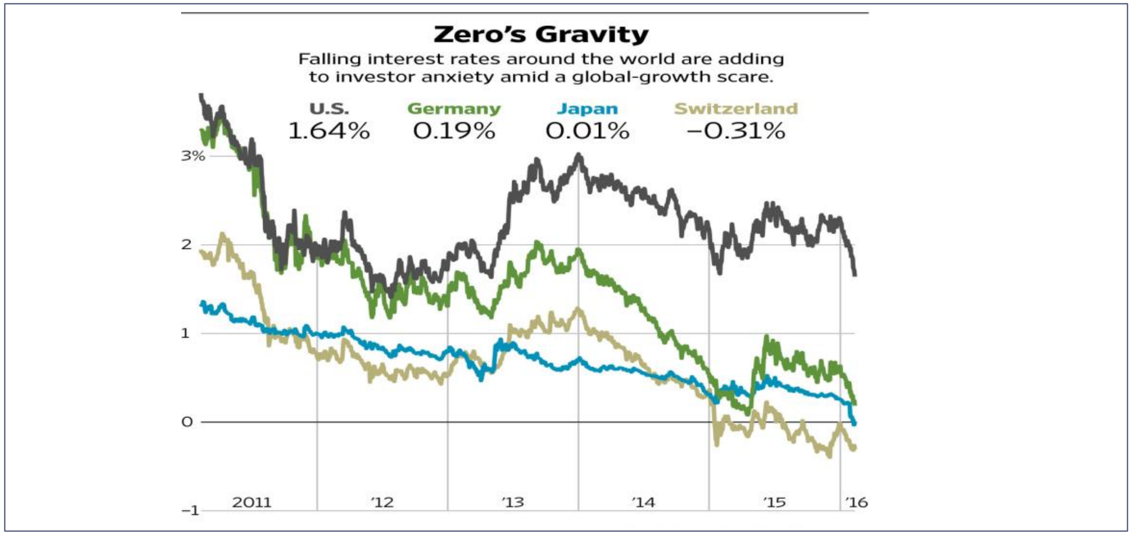
Government Bond Yields Near Record Lows



Source: Rylan ALM; FactSet

Anxious over volatile global equity markets, investors have flocked to sovereign debt since the start of the year. The result: bond prices have risen sharply and yields have fallen – in some cases to historic lows. The yields on U.S. Treasuries have tumbled below1.64%, a level last seen in 2013. German bonds – after recovering from lows in early '15 - have fallen again to .19%. Globally, one quarter of governments' bonds are now trading below 0%. The bond market is pricing in continued weakness and some analysts believe that we may see the yield on the 10-year Treasury sink to 1% or lower. Much of the flight to quality is due to the relatively weak outlook for the global economy and slower-than-expected growth in the U.S. It doesn't seem likely that investors will be satisfied to essentially pay governments for the privilege of holding their debt for long…however, for today, that is the situation.

"Monopoly" Goes Cashless

Source: Market Watch

This week, Monopoly unveiled a major change in the way it does business. In the game's new "Ultimate Banking" edition, paper money has been replaced with debit cards, and the role of the banker is played by an ATM. Players scan the bar code of the property they want to rent or buy, then swipe their debit card to process the transaction. The debit cards also monitor the players' wealth and property values, which can now fluctuate due to a new feature of the game: "Life Events" cards, which incorporate realistic market events like rent changes and market crashes. The digitization of this edition strips the game of many of the financial principles and money management lessons that Monopoly is meant to instill in children. However, it does offer a more efficient way to play the game. At the very least, it will be easier to clean up when someone flips the board over out of frustration.

Contact: If you have any questions or comments, please do not hesitate to contact us at 703.992.6164. For more information about Harbour Capital Advisors, please visit our website at www.harbourcapitaladvisors.com.

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