Tom: In this episode, we're going to talk about presidential cycles and the stock market. Don't forget to vote. We're going to talk about the January barometer for stocks and we're going to talk about oil again. Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly. This is episode number nine or The Kirk Nieuwenhuis episode. We've been debating, we're trying to think of famous Mets with different numbers, so this was ... We kind of came up with a three way tie. Speaking of tie, the Ty Willingham episode, he wore number nine. Kirk Nieuwenhuis, now that he's no longer Met, I can-

Speaker 2: He's not a Met anymore.

Tom: Yeah, I can finally start pronouncing his name right. With Joe Torre episode, but he really didn't have a good track record on the Mets. Before we begin, we need to have a moment of silence for Tom Coughlin. Thank you for all the great games as a Giant Coach. You'll certainly be missed. Okay, so it's also taken me eleven years to finally straighten out was it Tom [Coglin 00:01:39] or Tom Coughlin, so it's Coughlin, okay, but thank you for everything and good luck.

We always start out by reminding everybody that these topics that we cover in the videos come from your questions. They come from emails that we get from clients or phone discussions that we're having with them or meetings here in the office, so we do get these topics from you. If you've got a question, get in touch with us and if its good enough, we'll certainly cover it, because if you're thinking about it, there's probably other people that are thinking about it, too. Casey's got a list of some really great questions and topics, why don't you hit me with the first one, big guy.

Casey: What's the relationship between the four year presidential cycle and the stock market? Wasn't last year supposed to be good?

Tom: Yeah, last year was supposed to be the good year. The way the presidential cycle works out and this is according to Stock Trader's Almanac is that the first two years of an administration is usually when an administration is trying to push through some changes. There's really no rhyme or reason about whether the first or second year of an administration is really good, but it's that third year of the administration and the fourth year that are usually on the strong side.

In fact, going back to 1939, there hasn't been a down year in the presidential cycle. Now that's seventy-six years. That's really good. In 1939, the S&P was down about 5.5% that year. I don't know that off the top of my head, I actually looked it up, but for seventy-six years through all of these presidential cycles, a third year has usually been the strongest year. It didn't work out this year, first time since 1939, but that's actually pretty good. Usually, third year strongest, fourth year, okay, pretty good.

Those first two years of an administration now are hard to tell. Hey, one other thing. I just want to make sure everybody understands is that if you have an election in 2016, the first year of a new administration begins 2017. I don't think that will be the Romney administration. All right, Casey, what do you got next?

Casey: What's the January barometer? Something like if the market is good in January, the whole year is good and if it's bad in January, the whole year is bad?

Tom: You're pretty close when you say, "If the market's up in January, the market is good for the year. If it's bad in January, it's bad for the year." The second part is not right. The way that ... there's two different January barometers. The first one is the whole month of January. The second one is just the first five trading days of January. Let's talk about the first one. The whole month of January sets the pace for the entire year. Get this. If the market is up in the month of January, so you have to get to the end of January, but if the market's up at the end of January, 89% of the time going back to 1950, 89% of the time the market will be up for the year.

It's not perfect, but that's pretty reliable, 89% of the time it works. That's if the market's up. If the market's flat, if the market's down, it doesn't mean that the market is going to be down for the year. I got to make that clear so you understand that. If the market is down, it doesn't mean that we're going to have a down year. Okay, the second January barometer is the first five days. Again, the Stock Trader's Almanac talks about these at length. The way that one works is if the stock market is up the first five days of January, then 85% of the time, again, a pretty reliable indicator, 85% of the time, the market's going to be up for the year.

Casey: That's out the window.

Tom: Well, yeah, Casey raises a good point. That's out the window because we're recording this and today is the first trading day of the year. The market just closed and the Dow Jones was down 276 points. It's interesting that we were down about 350 or 400 points most of the day and if you were to look at a chart, you'd see that stocks got marked down right as the market opened at 9:30, and we just kind of hovered there down all along. This is like me comparing car wrecks. It's one thing when you see the market sliding throughout the day, down 50, down 100, down 150, down 300, down 400, and just an erosion through the day.

It's a totally different story, though, when you see a market open down 350 and basically kind of bump along at those kind of levels the rest of the day. It's a totally different tone that's out there. Like they purged and they're just moving on, but I want to get back to this. It doesn't necessarily mean that because we had a bad day that the first five trading days of the year is out the window, because it's the total return or the gain or loss after five trading days. We could spend the next four trading days, the rest of this week, getting back to even or a little bit on the plus side.

Interesting to note, last year, first five trading days of the year, market was down .6% of 1.0% and the market finished down .8% of 1.0%. It really was, like we mentioned in the other video, a year of nothing. It's a very good question. We love talking about the January barometers, especially in January. All right, what else do you got, big guy?

Casey: I know you've covered it already, but can we talk about oil again?

Tom: We did cover this already, but we do get inquiries about oil almost every day. People asking, "Is it time to bottom fish in oil?" "Are there some good bargains out there?" "Are there some good values?" "Do you think oil is going to come back?" "Is that going to be the story in 2016?" I'm going to read you a quote that I found this afternoon when we were preparing for this. "The Stone Age didn't end for a lack of stone and the Oil Age will end long before the world runs out of oil." That was from a fellow named Sheikh Yamani, who was the Oil Minister in Saudi Arabia in the '60s and '70s.

He said this when I was back in high school. In fact, when I first looked it up, I miss-typed it into the Googler, the Google Machine, and what came up was, "Shake Your Bootie." If you were into music back in the '70s, you know that was a pretty popular Frank Zappa album, so not to be confused Shake Your Bootie with Sheikh Yamani, but he basically called the shots when Saudi Arabia was driving OPEC in the '60s and '70s, but here's the thing with oil. That chart is trading like charts we've seen when companies are about to go out of business.

I mean they go down and there is no bottom in sight and we get calls from folks asking, "Is it time to start looking for bargains?" "Is it time to start putting a toe in the water or putting a toe in the oil?" No way. This chart hasn't even stopped going down yet. Forget about building a base and then moving back up from there. It hasn't stopped going down, so this is not a recommendation to short it. It's not a recommendation to trade it. It's not a recommendation to buy it or anything in its field, so please don't misunderstand what I'm trying to say here.

I'm just talking about the direction of this chart is still going down and it's pretty dangerous. In fact, one of the things that we've come to realize over the years is that it doesn't necessarily ... Your returns aren't necessarily predicated on picking the right stocks or the right sectors. Sometimes your return, it works out to be pretty good because you avoided all of the bombs that are out there in the marketplace. Last year, if you avoided emerging markets, you didn't take a big hit. If you avoided the whole energy sector, not just crude oil, but everything related to energy, you avoided some real problems. Still not a time to be looking for oil.

There's probably going to be a day where it comes back, but I think that's something that I would steer clear of for now. That's all we've got for you today. Thanks again for watching episode nine, the Kirk Nieuwenhuis episode. We're going to work on that. I'm pretty happy, though, because episode ten can be The Duffy Dyer episode or Rusty Staub or number ten. I'm sure there's some other guys that we forgot, but we'll come up ... We're an office full of Met fans here, so we'll come up with something creative for that, but thanks for watching and we will see you in episode ten. Don't forget to hit Subscribe if you're watching on YouTube. Thanks.