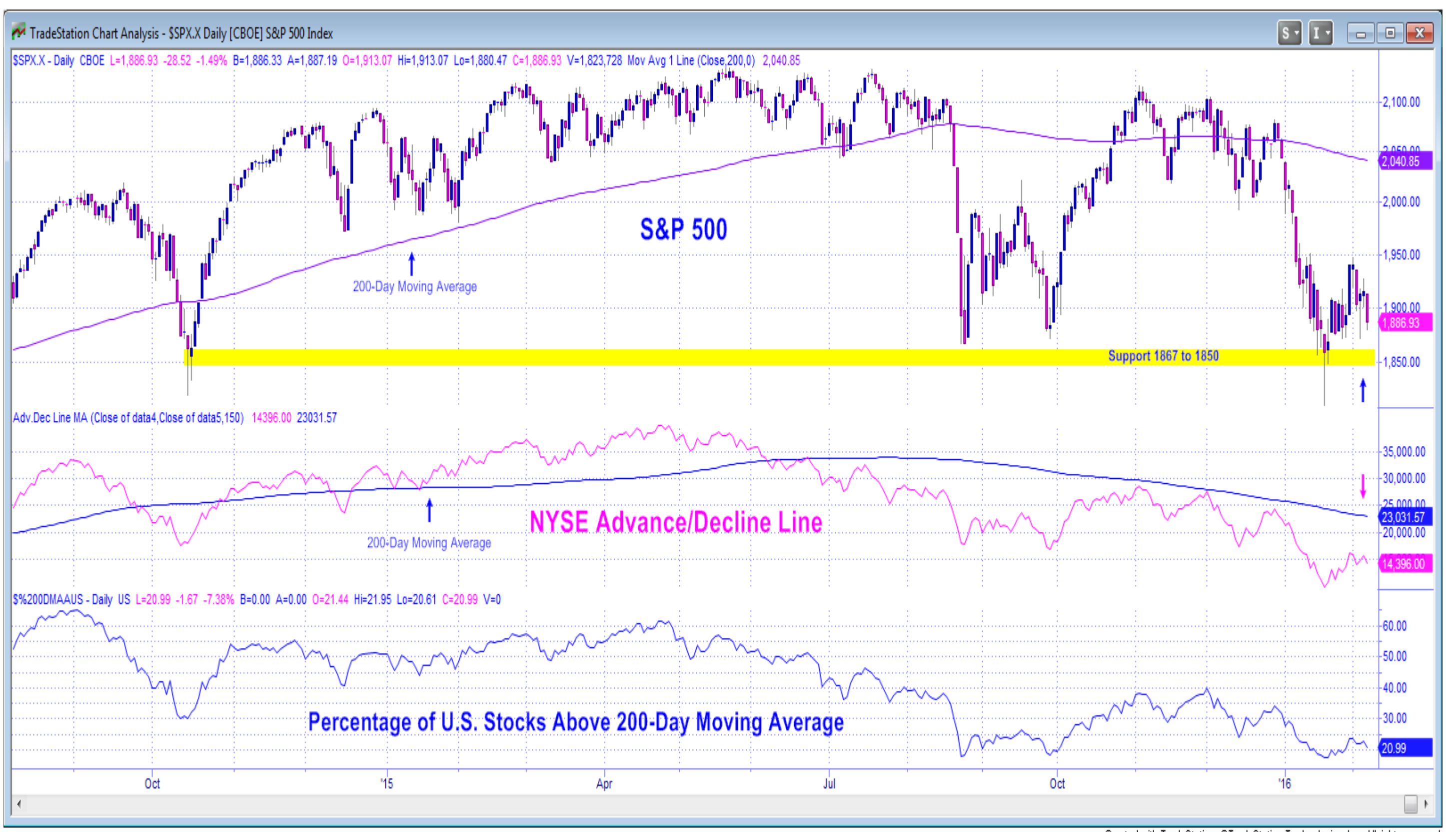
Titan Capital Management, LLC
Global Market Letter

February 5, 2015 **Abe Askil, CFP®**

JANUARY BAROMETER

The S&P 500 fell 5.1% in January which is the worst performance for the month since 2009. The January Barometer was created by Yale Hirsh in 1972 and the basic premise of this indicator is that as January goes, so goes the year. Since 1950 whenever the S&P 500 has declined in January, the S&P has only averaged a 0.7% gain from February thru December, but when January has been up the S&P has risen 12.1% on average. The rationale behind why this occurs is based on the idea that if the market can't rally during the seasonally strong month of January when the supply of stocks tends to be low and the demand tends to be high, then it is more likely to struggle when the supply/demand balance is less positive. The January Barometer has a pretty good track record with an 88% accuracy rate since 1950 and only 6 errors in 66 years. We do not rely on the January Indicator to make investment decisions, but I thought it was an interesting fact that some of you may want to know about. We will see if the January Barometer turns out to be right this year, but we'll rely on our proprietary trend models Alpha and Omega to determine when we should be in stocks and when we should be out.

The major U.S. indices are once again testing the support area that goes back to October 2014 and includes the August 2015 lows. Some indices like the Russell 2000 and MSCI All World Country Index have already broken below their October 2014 and August 2015 lows. The chart below shows the S&P 500 and the 1867 to 1850 support area that is being tested which is highlighted in yellow. A break below this level will be negative for the market. You can also see that the NYSE Advance/Decline line (middle pane) is still in a downtrend which is indicative of weak market breadth and a weak market overall. Another indication of a weak market is that the percentage of U.S stocks above their 200-day moving average (bottom pane) is currently at just 20% and is generally close to 60% or higher during market uptrends. The story from the tape (market indicators) is that the market is not in a healthy state and could certainly decline further. We will see if the Dow, S&P 500 and NASDAQ are able to bounce off of their support levels and move higher or if they will join the Russell 2000 and MSCI All World Country Index by breaking below their October 2014 and August 2015 lows.



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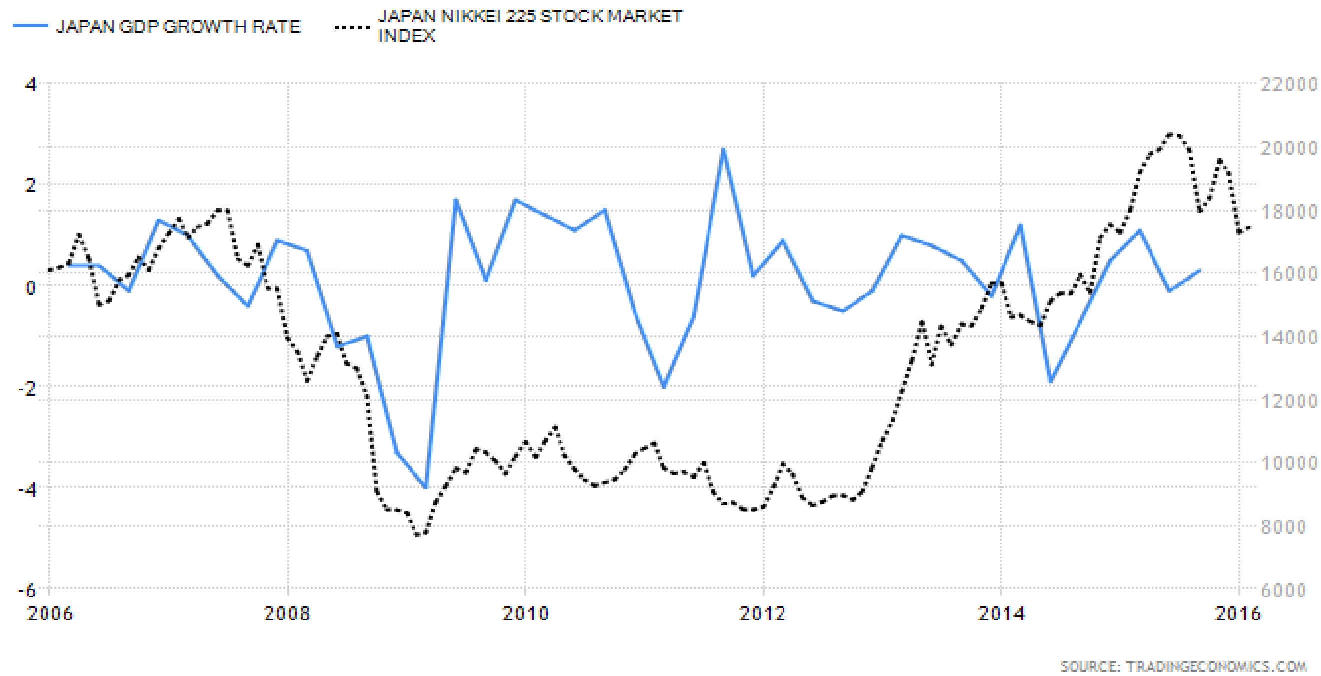
BANK OF JAPAN INTRODUCES NIRP

The Bank of Japan (BOJ) introduced a negative interest rate policy (NIRP) on January 29th by lowering their target interest rate to -0.1%. The idea is that it will spur commercial banks to loan more money. The BOJ has had a zero interest rate policy (ZIRP) since the late 1990's and has engaged in Quantitative Easing (QE) since 2001. The reality is that ZIRP and massive amounts of QE have not boosted Japan's economic growth as you can see in the chart below (left scale). The blue line represents Japan's GDP Growth Rate which has been under 2% for the past decade and has spent nearly half of the time in the negative growth area. The BOJ's easy monetary policy has not helped the Japanese stock market that much either as the Nikkei 225, which is the dotted black line in the chart below (right scale), is at the same level today as it was back in 2007 and is clearly in a downtrend from its 2015 highs. Japan is currently printing 80 trillion Yen ($660 billion) per year and has a debt to GDP ratio of 230 which is by far the highest in the world followed by Greece at 177. Japan has taught the rest of the world that you cannot print your way to prosperity and economic growth. The U.S. has had ZIRP since 2008 and there is a chance that the Fed could cut rates into negative territory at some point in the future as well. This past Monday, Fed Vice Chairman Stanley Fischer gave a talk to the Council on Foreign Relations in New York in which he approvingly discussed negative interest rates in some detail. If you are wondering how the Japanese stock market has reacted to the negative interest policy, so far it has fallen since the announcement was made.



THE BOTTOM LINE

Our Alpha and Omega trend models are both negative at this time. Alpha turned negative on August 6, 2015 and we sold approximately 60% of our equity positions across all of our strategies at that time. The S&P 500 was 9% higher than it is today when we sold the majority of our equity positions. Omega turned negative on January 15 of this year and we sold all remaining equity positions that day and increased our positions in cash and bonds. The global markets remain quite volatile and we are quite content to watch how things play out from the sidelines. If the market action improves and our models turn positive, we will get back into equities. However, if the markets continue to decline and our models stay negative, we will stay in the safety of cash and bonds. The average bear market has taken stocks down a minimum of 30%, but the market has to fall 10% first before it falls 30% so time will tell if this is the beginning of a bear market.

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