

Bianco Research L.L.C.

An Arbor Research & Trading Affiliated Company

Independent · Objective · Original

Volume 19, No.2

1731 North Marcey, Chicago IL 60614

www.biancoresearch.com

Total Return Review

Viewing the Markets from a Total Return Perspective

By Greg Blaha (847) 304-1511

and Ryan Malo (847) 304-1511

February 1, 2010

Dispelling Common Seasonal Myths

Seasonal returns in the stock market are often highly scrutinized near the beginning of the year. Some like to believe the first week or month of the year hold some sort of significance for stock returns throughout the rest of the year.

As we originally wrote in a [January 11 Market Talk post](#), the first week of the year usually offers no predictive value for trading the rest of the year. If stocks trade up in the first week of January, the following 51 weeks should not be considered any different than any other up-week in stocks and the ensuing 51 weeks.

It is only when stocks fall during the first trading week of the year that this indicator holds some value. If stocks trade lower in the first week of the year, the S&P 500 is only up 44.44% of the time over the ensuing 51 weeks. A look at any random week in which stocks trade down shows that stocks are usually up 63.66% of the time over the following 51 weeks. Since the S&P was up in the first week of 2010, this indicator really offers no insight for the rest of the year.

The S&P 500

As goes the week . . . so goes every week						
A Look at all weeks in the S&P 500 back to 1928						
When	Number of weeks	Pct.	Average Gain/Loss	Pct. of the time <u>up</u> over the next 51 weeks	Pct. of the time <u>down</u> over the next 51 weeks	Average Gain/Loss
Up for the week	2352	55.64%	1.70%	67.37%	32.63%	6.96%
Down for the week	1849	43.74%	-1.88%	63.66%	36.29%	6.02%
Unch. for the week	26	0.62%	0.00%	65.38%	34.62%	10.91%
A look at only the first week of the year						
When	Number of weeks	Pct.	Average Gain/Loss	Pct. of the time <u>up</u> over the next 51 weeks	Pct. of the time <u>down</u> over the next 51 weeks	Average Gain/Loss
Up Weeks	53	65.43%	2.08%	69.81%	30.19%	8.25%
Down Weeks	27	33.33%	-1.92%	44.44%	55.56%	0.26%
Unchanged Weeks	1	1.23%	0.00%	100.00%	0.00%	41.82%

In the same way that the first week of the year is used as a proxy for the rest of the year, people also like to use the first month of the year to project future returns.

As the top panel of the table below shows, January is no more predictive than many other months. If the month of January is up, the market is up 11 months later 80.77% of the time. While this may sound impressive, note that several months have a similar track record. Since all up months project positive returns 11 months later about 75% of the time, this

suggests that the month of January is only slightly better than the average up month at predicting the direction of the market.

The bottom panel shows the results for the 11 months after a given month is down. If the month of January is down, the market is down 11 months later 45.16% of the time. While a down January ranks number one of all months in correctly predicting the direction of the market, it is no better than a coin toss in predicting the direction of the market 11 months later.

As Goes The Month . . .
A Look at S&P 500 Total Returns
for all Months since 1926

		Up	Up 11 Months	
Rank	Month	Month	Later	% correct
	All	622	467	75.08%
1	April	52	42	80.77%
2	January	52	42	80.77%
3	September	41	33	80.49%
4	November	54	43	79.63%
5	February	47	37	78.72%
6	May	54	42	77.78%
7	June	50	38	76.00%
8	March	52	39	75.00%
9	October	50	35	70.00%
10	July	49	34	69.39%
11	December	66	45	68.18%
12	August	55	37	67.27%
		Down	Down 11 Months	
Rank	Month	Month	Later	% correct
	All	383	128	33.42%
1	January	31	14	45.16%
2	December	18	8	44.44%
3	April	32	13	40.63%
4	November	30	12	40.00%
5	June	34	13	38.24%
6	February	37	14	37.84%
7	March	31	11	35.48%
8	September	42	14	33.33%
9	July	35	9	25.71%
10	August	29	7	24.14%
11	October	34	7	20.59%
12	May	30	6	20.00%

Source: Logical Information Machines, Austin Texas (w w w .lim.com)

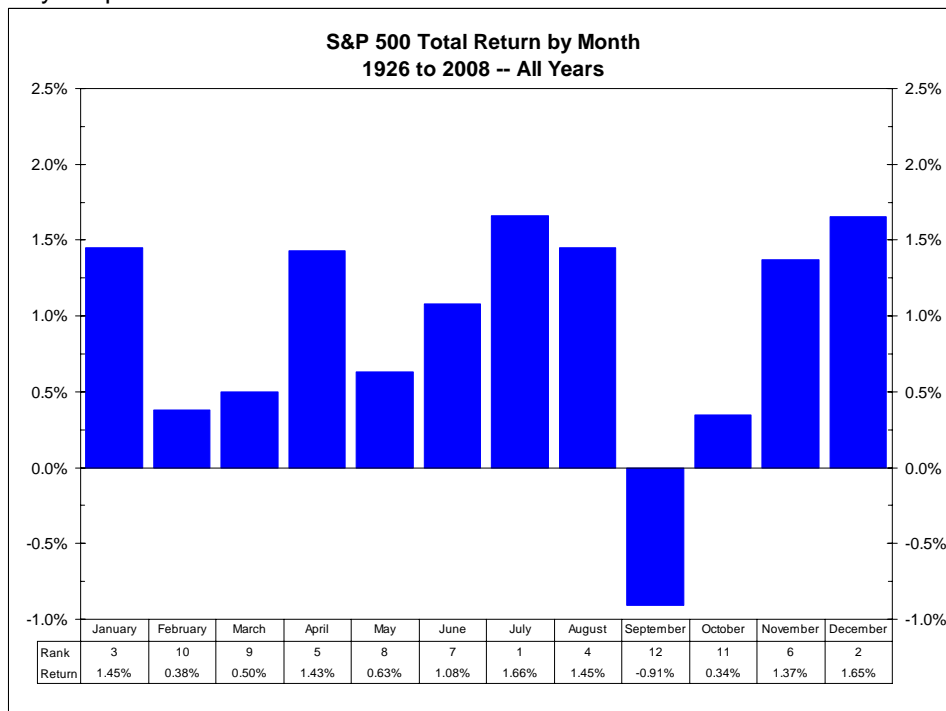
Another factoid which is often incorrectly quoted is that the large majority of gains in stocks since the March low have come on Mondays. In a [Market Talk post](#) earlier today, we highlighted a table showing stock gains by day of the week since the March low. While Mondays are certainly one of the better days of the week to have owned stocks, Thursdays have

actually shown slightly larger gains throughout the recent bull market. If an investor were to hold stocks only on these two days since March 9, he would have seen a return of 45.86%. Considering the entire bull market over that period returned 58.73%, it would be accurate to say that these two days account for the large majority of this rally.

What Day Makes Money?		
S&P 500 Returns		
March 9, 2009 to January 29, 2010		
	Points	% Gain
All Days	397.34	58.73%
Monday	153.10	22.63%
Tuesday	33.33	4.93%
Wednesday	88.94	13.15%
Thursday	157.14	23.23%
Friday	-35.17	-5.20%

One final seasonal myth which we have heard recently is that February is often a terrible month to own stocks. As the chart below shows, February does rank as one of the worst months of the year to own stocks. Only September and October are

worse. Despite that, stocks have returned 0.38% in all Februarys since 1926. Only the month of September actually shows negative returns on average since 1926.



Seasonal patterns, while interesting, often need to be viewed in a larger context. Because this type of data is easily data-mined, people will often pick and choose partial truths to support their directional call on the market. A deeper look at some of these claims will often show that, while there is some truth to them, they are often overly simplified or overstated.

U.S. Fixed Income Total Returns

	As of 1/31/10			Annualized Ending 1/31/10			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Treasury Cash:	0.03%	0.03%	0.03%	0.34%	2.43%	3.08%	2.98%
3 Month	0.01%	0.01%	0.01%	0.22%	2.27%	2.99%	2.94%
6 Month	0.05%	0.05%	0.05%	0.64%	3.11%	3.49%	3.35%
Treasury Coupons:	1.75%	1.75%	1.75%	-2.57%	7.25%	5.15%	6.22%
2 Year	0.77%	0.77%	0.77%	2.01%	5.48%	4.39%	4.72%
5 Year	1.89%	1.89%	1.89%	1.50%	7.93%	5.26%	6.33%
10 Year	2.19%	2.19%	2.19%	-3.31%	6.91%	4.47%	6.36%
30 Year	2.51%	2.51%	2.51%	-11.14%	6.21%	4.15%	7.22%
Treasury Strips:	2.94%	2.94%	2.94%	-6.72%	7.20%	6.44%	9.10%
5 Year	1.76%	1.76%	1.76%	3.84%	8.59%	6.05%	7.34%
10 Year	2.49%	2.49%	2.49%	3.98%	8.94%	6.26%	8.82%
15 Year	3.48%	3.48%	3.48%	-1.68%	7.67%	5.49%	9.22%
20 Year	3.78%	3.78%	3.78%	-8.03%	6.43%	4.88%	9.16%
25 Year	2.95%	2.95%	2.95%	-15.85%	5.42%	4.07%	8.71%
Broad Indices							
Merrill Lynch Domestic Master	1.55%	1.55%	1.55%	7.89%	6.77%	5.27%	6.60%
Barclay's (Lehman) Aggregate	1.53%	1.53%	1.53%	8.51%	6.59%	5.16%	6.53%
Barclay's (Lehman) Government/Credit	1.49%	1.49%	1.49%	7.74%	6.37%	4.88%	6.51%
Government Indices							
Barclay's (Lehman) Government	1.45%	1.45%	1.45%	1.77%	6.65%	5.05%	6.31%
Barclay's (Lehman) Treasury	1.58%	1.58%	1.58%	0.90%	6.75%	5.02%	6.29%
Barclay's (Lehman) Agency	1.06%	1.06%	1.06%	4.03%	6.56%	5.17%	6.36%
Agency Benchmarks							
2 Year	0.52%	0.52%	0.52%	2.85%	5.57%	4.63%	5.24%
5 Year	1.64%	1.64%	1.64%	4.93%	8.34%	6.01%	7.08%
10 Year	1.34%	1.34%	1.34%	4.88%	8.36%	6.18%	7.94%
30 Year	1.93%	1.93%	1.93%	0.31%	7.01%	5.37%	8.81%
Other Indices							
Merrill Corporate	2.01%	2.01%	2.01%	21.76%	5.99%	4.69%	6.81%
Barclay's (Lehman) Mortgage	1.33%	1.33%	1.33%	7.08%	7.49%	5.94%	6.68%
Barclay's (Lehman) Inflation Notes ("TIPS")	1.58%	1.58%	1.58%	11.29%	7.20%	4.96%	7.81%
Merrill High Yield	1.52%	1.52%	1.52%	51.83%	5.97%	6.69%	7.04%
Merrill Municipal	0.50%	0.50%	0.50%	10.53%	4.56%	4.28%	6.67%

Treasury Cash: Equal-weighted total-return avg. of the Treasury yield curve from 3 to 12 month maturities.

Treasury Coupons: Equal-weighted total-return avg. of the Treasury yield curve from 2 to 30 year maturities.

Treasury Strips: Equal-weighted total-return average of Treasury Strips from 1 year to 30 years.

Sources: Bloomberg, Barclay's (Lehman Brothers), Merrill Lynch and Arbor Research & Trading

Total Return Comparisons: The "Bullet" versus "Barbells"

Portfolio Type*	As of 1/31/10					
	MTD	Diff.	QTD	Diff.	YTD	Diff.
Bullet (4.94 Duration)	1.76%		1.76%		1.76%	
5 yr and 10 yr	1.92%	0.16%	1.92%	0.16%	1.92%	0.16%
5 yr and 30 yr	1.91%	0.15%	1.91%	0.15%	1.91%	0.15%
2 yr and 10 yr	1.46%	-0.30%	1.46%	-0.30%	1.46%	-0.30%
2 yr and 30 yr	1.14%	-0.62%	1.14%	-0.62%	1.14%	-0.62%
Cash and 10 yr	1.30%	-0.46%	1.30%	-0.46%	1.30%	-0.46%
Cash and 30 yr	0.74%	-1.02%	0.74%	-1.02%	0.74%	-1.02%
Cash and 25 yr Strips	0.58%	-1.18%	0.58%	-1.18%	0.58%	-1.18%

*This analysis compares the total return of the 5-Year Strip or the "bullet" to cash neutral, duration neutral barbells.

Its purpose is to quantify the effect of the yield curve on total return.

Sources: Bloomberg and Merrill Lynch

World Fixed-Income Total Returns (in U.S. Dollars)

	in U.S. Dollars						
	As of 1/31/10			Annualized Ending 1/31/10			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
J. P. Morgan Government Bond Indices							
Country							
Canada	0.09%	0.09%	0.09%	19.10%	9.48%	8.62%	10.11%
France	-1.92%	-1.92%	-1.92%	14.77%	8.40%	5.56%	9.41%
Germany	-1.64%	-1.64%	-1.64%	13.38%	8.36%	5.56%	9.34%
Italy	-3.06%	-3.06%	-3.06%	17.58%	7.73%	5.14%	9.44%
Japan	2.65%	2.65%	2.65%	0.55%	12.75%	4.31%	3.52%
United Kingdom	-0.13%	-0.13%	-0.13%	16.24%	-0.52%	1.80%	5.57%
United States	1.61%	1.61%	1.61%	0.94%	6.93%	5.14%	6.46%
Region							
Europe	-1.96%	-1.96%	-1.96%	15.53%	6.80%	4.84%	8.88%
Global	0.51%	0.51%	0.51%	6.62%	8.79%	4.97%	6.97%
Global Non-United States	0.08%	0.08%	0.08%	8.57%	9.44%	4.96%	7.00%
J. P. Morgan Emerging Markets Bond Indices							
EMBI Plus	-0.14%	-0.14%	-0.14%	25.55%	6.69%	8.21%	11.15%
Region							
Latin	-0.13%	-0.13%	-0.13%	23.88%	5.50%	7.89%	9.15%
Non-Latin	-0.14%	-0.14%	-0.14%	27.42%	8.13%	8.51%	15.77%

World Fixed-Income Total Returns (in Local Currency)

	in Local Currency						
	As of 1/31/10			Annualized Ending 1/31/10			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
J. P. Morgan Government Bond Indices							
Country							
Canada	1.73%	1.73%	1.73%	2.35%	5.80%	5.36%	6.78%
France	1.24%	1.24%	1.24%	5.81%	5.99%	4.22%	5.64%
Germany	1.54%	1.54%	1.54%	4.54%	5.96%	4.21%	5.57%
Italy	0.06%	0.06%	0.06%	8.40%	5.34%	3.80%	5.66%
Japan	-0.04%	-0.04%	-0.04%	1.49%	2.42%	1.59%	1.81%
United Kingdom	0.64%	0.64%	0.64%	4.59%	6.34%	5.18%	5.69%
United States	1.61%	1.61%	1.61%	0.94%	6.93%	5.14%	6.46%
Region							
Europe	0.80%	0.80%	0.80%	6.05%	5.81%	4.21%	5.66%
Global	0.79%	0.79%	0.79%	3.15%	4.93%	3.60%	4.80%
Global Non-United States	0.47%	0.47%	0.47%	3.88%	4.35%	3.15%	4.21%

Sources: Bloomberg and J. P. Morgan & Co. Incorporated (<http://www.jpmorgan.com/>)

U. S. Equity Total Returns

	As of 1/31/10			Annualized Ending 1/31/10			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Broad Market							
Dow Jones Industrials ²	-3.15%	-3.15%	-3.15%	29.58%	-4.71%	1.75%	1.46%
NASDAQ Composite ¹	-5.34%	-5.34%	-5.34%	46.93%	-3.61%	1.67%	-5.17%
NASDAQ 100 ²	-6.39%	-6.39%	-6.39%	48.57%	-0.38%	3.30%	-6.62%
Russell 1000 ⁴	-3.60%	-3.60%	-3.60%	34.81%	-7.10%	0.57%	-0.44%
Russell 2000 ⁴	-3.68%	-3.68%	-3.68%	37.82%	-7.74%	0.61%	3.29%
Russell 3000 ⁴	-3.60%	-3.60%	-3.60%	35.05%	-7.16%	0.57%	-0.17%
S&P 500 (Capitalization Weighted) ³	-3.59%	-3.59%	-3.59%	33.14%	-7.23%	0.18%	-0.80%
S&P 500 (Equal Weighted) ¹	-3.16%	-3.16%	-3.16%	53.84%	-5.40%	2.28%	5.66%
S&P 400 MidCap ³	-3.21%	-3.21%	-3.21%	43.35%	-4.05%	3.12%	6.31%
S&P 600 SmallCap ³	-3.38%	-3.38%	-3.38%	38.97%	-6.52%	1.13%	6.32%
Wilshire 5000 ¹	-3.43%	-3.43%	-3.43%	34.92%	-6.94%	0.77%	-0.19%
Interest Rate Sensitive							
PSE Electric Utility Index ²	-4.88%	-4.88%	-4.88%	86.18%	17.01%	17.20%	13.62%
KBW Bank Stock Index ²	9.04%	9.04%	9.04%	57.28%	-25.23%	-12.21%	-2.30%
S&P 500 Financial Index ²	-1.39%	-1.39%	-1.39%	56.88%	-25.20%	-11.34%	-2.39%
Other Indices							
Morgan Stanley Consumer Index ²	-2.24%	-2.24%	-2.24%	30.66%	-0.13%	4.76%	4.60%
Morgan Stanley Cyclical Index ²	-5.26%	-5.26%	-5.26%	95.08%	-3.10%	3.21%	6.67%
S&P 500/Barra Growth ³	-5.14%	-5.14%	-5.14%	31.23%	-4.38%	0.94%	-2.72%
S&P 500/Barra Value ³	-2.01%	-2.01%	-2.01%	35.15%	-10.21%	-0.70%	0.96%
Gold/Silver Stock Index ²	-12.04%	-12.04%	-12.04%	20.00%	2.74%	11.24%	11.12%

Sources: ¹ Wilshire Associates Incorporated (<http://www.wilshire.com>) and Ryan Labs Inc.

² Bloomberg L.P. and Ryan Labs Inc.

³ BARRA, Inc. (<http://www.barra.com>) and Standard & Poors (<http://www.spglobal.com>)

⁴ Frank Russell Company (<http://www.russell.com>)

Commodity Total Returns

	As of 1/31/10			Annualized Ending 1/31/10			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Commodity Total Return Indices							
Reuters/Jefferies CRB ¹	-6.16%	-6.16%	-6.16%	20.86%	-1.47%	1.14%	3.82%
S&P GSCI ²	-7.90%	-7.90%	-7.90%	14.79%	-8.76%	-5.82%	3.47%
Dow Jones-UBS index	-7.28%	-7.28%	-7.28%	16.51%	-6.29%	0.22%	5.76%
Rogers International Commodities ³	-7.06%	-7.06%	-7.06%	23.69%	-2.11%	1.65%	8.57%

Sources: ¹ Reuters/Jefferies CRB (<http://www.jefferies.com>)

² S&P GSCI (<http://www2.standardandpoors.com>)

³ Beeland Management Co., L.L.C.

World Equity Total Returns (in U.S. Dollars)

	in U.S. Dollars						
	As of 1/31/10			Annualized Ending 1/31/10			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Morgan Stanley Capital International Indices							
Country							
Canada	-7.37%	-7.37%	-7.37%	51.04%	1.45%	10.58%	8.31%
France	-7.39%	-7.39%	-7.39%	43.94%	-6.84%	4.19%	2.55%
Germany	-8.63%	-8.63%	-8.63%	38.86%	-5.48%	6.14%	1.35%
Italy	-8.46%	-8.46%	-8.46%	36.12%	-13.88%	-2.02%	1.74%
Japan	1.90%	1.90%	1.90%	16.32%	-9.94%	0.15%	-2.93%
United Kingdom	-4.81%	-4.81%	-4.81%	45.53%	-8.52%	1.56%	1.85%
United States	-3.51%	-3.51%	-3.51%	33.56%	-7.05%	0.44%	-1.10%
Region							
World Index	-4.11%	-4.11%	-4.11%	37.41%	-6.78%	2.17%	0.40%
EAFE	-4.40%	-4.40%	-4.40%	40.39%	-7.19%	3.47%	1.79%
Emerging Markets (Free)	-5.56%	-5.56%	-5.56%	80.66%	3.79%	14.49%	9.42%

World Equity Total Returns (in Local Currency)

	in Local Currency						
	As of 1/31/10			Annualized Ending 1/31/10			
	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Morgan Stanley Capital International Indices							
Country							
Canada	-5.85%	-5.85%	-5.85%	29.80%	-1.96%	7.27%	5.04%
France	-4.41%	-4.41%	-4.41%	32.71%	-8.90%	2.86%	-0.99%
Germany	-5.68%	-5.68%	-5.68%	28.02%	-7.58%	4.79%	-2.14%
Italy	-5.51%	-5.51%	-5.51%	25.50%	-15.79%	-3.27%	-1.77%
Japan	-0.77%	-0.77%	-0.77%	17.41%	-18.19%	-2.46%	-4.53%
United Kingdom	-4.07%	-4.07%	-4.07%	30.94%	-2.21%	4.92%	1.97%
United States	-3.51%	-3.51%	-3.51%	33.56%	-7.05%	0.44%	-1.10%
Region							
World Index	-3.60%	-3.60%	-3.60%	31.23%	-8.05%	1.55%	-0.69%
EAFE	-3.45%	-3.45%	-3.45%	29.11%	-9.46%	2.58%	-0.59%
Emerging Markets (Free)	-4.38%	-4.38%	-4.38%	60.31%	4.18%	14.32%	9.62%

Sources: Bloomberg and Morgan Stanley Capital International (<http://www.msdata.com/>)

Bianco Research L.L.C.

1731 North Marcey, Suite 510
Chicago IL 60614

Phone: (847) 304-1511

Fax (847) 304-1749

e-mail: research@biancoresearch.com

<http://www.biancoresearch.com>

For more information about the contents/ opinions contained in these reports:

President (847) 756-3599

James A. Bianco jbianco@biancoresearch.com

Strategist/Analyst (847) 304-1511

Howard L. Simons hsimons@biancoresearch.com

Greg Blaha gblaha@biancoresearch.com

Ryan Malo rmalo@biancoresearch.com

For subscription/service Information:

Arbor Research & Trading, Inc.

Director of Sales & Marketing (800) 606-1872

Fritz Handler fritz.handler@arborresearch.com

Arbor Research & Trading, Inc.

1000 Hart Road, Suite 260
Barrington IL 60010

Phone (847) 304-1560 Fax (847) 304-1595

e-mail inforequest@arborresearch.com

<http://www.arborresearch.com>

Domestic - For more information about Arbor Research & Trading and its services:

New York Sales Office

The Chrysler Building, 405 Lexington Ave
New York, NY 10174

Edward T. McElwreath ed.mcelwreath@arborresearch.com

Phone (212) 867-5326 Fax (212) 370-1218

International - For more information about Arbor Research & Trading and its services:

London Sales Office

3rd Floor 4 Broadgate

London England EC2M 2QS

Phone 44-207-100-1051

Neil Tritton neil.tritton@arborresearch.com

Ben Gibson ben.gibson@arborresearch.com

Chicago Sales

James L. Perry james.perry@arborresearch.com

Phone (847) 304-1560 Fax (847) 304-1595

Geneva Sales

Rich Kleinbauer rich.kleinbauer@arborresearch.com

Phone (41) 22 363-9229

Far East Sales

Robert Reynolds robert.reynolds@arborresearch.com

Phone (847) 756-3680 Fax (435) 647-3073