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Stock market trend predicts Broncos win

Bob Stovall's famous Super Bowl predictor of the stock market's direction, which correlates a NFC team's win with an up market and an AFC team's win with a down market for the year, has provided accurate correlations in 40 of the 49 Super Bowls. With that in mind and the stock market's rough start, an AFC team win looks probable on Feb. 7.

After the third-quarter fall, the Dow Jones industrial average staged a rally to get back to within 3 percent of the all-time high seen earlier in 2015. Since Jan. 1, the market has gotten off to the worst start for a new year ever. Standard & Poor's 500 index is currently down 12.5 percent from the February 2015 high, not including dividends.

So should investors root for the Panthers, in hopes of turning around the stock market? Let's consider the data and key factors in play:

A measure of market valuation is the price-earnings ratio. And while that figure is down from when the market was at its peak, the current valuation remains at the 10-year average of 15 times earnings, indicating a full valuation.

Concerns such as the U.S. Federal Reserve's recent increase in rates while the foreign central banks continue easing will likely result in a persistent climb in the value of our currency.

A strong dollar makes it difficult for goods produced in the U.S. to compete with those produced by foreign competitors, thus adding recessionary



BY LARRY RILEY
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pressures to our economy.

The strength of the U.S. dollar also makes it more difficult for our domestic companies to raise prices on goods, therefore limiting their ability to raise wages for U.S. workers. The needle has barely moved as wages have been stagnant since the end of 2007 and the economy has languished with a recovery growth rate barely above 2 percent.

Fourth-quarter corporate earnings announcements are just starting to be announced. Unless we are totally blindsided, they will be down approximately 4 percent compared to 2014. Continued slow growth is expected for 2016.

Behavioral finance tells us that investors suffer greater displeasure from a loss than the pleasure derived from gains. Blair Walsh, the Minnesota Vikings' kicker who missed a 27-yard field goal in the recent NFC Wild Card playoff game, would likely say the same applies to NFL football. No doubt Walsh's "wide left" will haunt him more than Aaron Rodgers will fondly remember his "hail Mary" passes against the Lions and Cardinals. To safeguard from regret similar to Walsh's, investors

should hedge against significant losses.

Last year, only 10 percent of companies provided almost all of the market's return.

A select number of companies with the prospect of growth faster than that of the broad market, such as Amazon (P/E of 105 times earnings) or Netflix (P/E of 89.9 times earnings), performed well. These growth stocks far outperformed value stocks, which are slower growing companies priced closer to the value of assets on their books and typically having higher dividend yield, such as Carnival Cruise Line (P/E of 12.7 times earnings).

2016 will likely be a year of reversion to the mean in terms of equity performance, where the market will be led by value stocks. This will not be the year to purchase high multiple growth stocks, or in football parlance, throw a "hail Mary." It will be better to limit the downside.

In these turbulent times, asset allocation remains the critical driver of financial portfolio performance.

And as for the Super Bowl predictor, some fans may want to consider cheering for a favorable outcome in the stock market rather than for their favorite team.

Larry Riley is the senior vice president and vice chairman of the investment committee for Coral Gables Trust Company. Riley was also the founding president of the local financial analyst society, CFA Miami. He can be reached at 786-497-1212 or lriley@cctrust.com.