



CAPITAL INVESTMENT COUNSEL

The Columns

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The Dow Jones December Low is one of the cleanest indicators I follow. Here's how it works: I mark the Dow's lowest value for December and then track it closely for the following first quarter. It's a simple theory I try to test: in strong markets, the Dow holds above that level. When it breaks, it can signal that more downside is play.

Since 2014, the Dow Jones Industrial Average has broken the December low nine times. Let's see how 2026 is shaping up: the Dow 2025 December low was 47,263. That low was made on December 2nd and the Dow never looked back and rallied steadily through year end. The Dow started the new year just above 48,000 and kept climbing. By February 10th, it tagged a fresh all-time high at 50,512. I've been around long enough to remember when they handed out "Dow 10,000" hats on the exchange floor, so crossing 50K was a big deal.

So far so good, and it looked like we would get through the first quarter without breaking that December low, but the market had other plans. On March 12th, the Dow sliced just below that 47,263 level.

Why does this matter? We've seen this setup 40 times and it's been resulted in an interesting tell. Once the December low gives way, from my tracking, the sell-off that followed has averaged 11%. Run the math and that potentially lands the Dow at 42,000. The March low was 45,369 last week. so we're down 4% so far. I don't see this as a "sell everything" kind of moment. I'm viewing it as "pay attention and get ready" moment. The level matters, no question. But as stocks head lower, we're building a shopping list, not heading for the exits. Let's dig into why below.

Stocks have been due for a pullback, and mid-term years tend to deliver that. Let's call it volatility with a purpose. Historically, the S&P 500 typically swings about 14% from top to bottom in mid-term years. We're also near the peak of a seasonal headwind. The eight months before an election tend to be weaker, and that's the window we're in now. Let's connect the dots.

The market needed a reset, and we're getting one. Maybe the drop in the Dow Industrials, after breaking the December low, ends up being the bulk of it. That could be the case, especially if the Iran situation clears up sooner rather than later. But if we see a bit more downside, it wouldn't be unusual. In fact, it would be right in line with how these mid-term cycles tend to play out.

Investor negativity is certainly elevated. Macro Charts on X pointed out the volume in inverse ETF's, those designed to short the market, is at record highs. The market likes to frustrate the maximum number of people and history shows that this negative type of behavior happens more often around bottoms instead of tops.

I was going over my mid-term notes from 2022 and as bleak as it seemed in early October that year, it turned out to have been a great time to buy. The S&P 500 is up 98% since Halloween of 2022. A rally that large isn't likely this time but there is potential upside, so let's check out the positives.

Here's the short-term setup. Eliant Capital tracks the McClellan Oscillator as a measure of how washed out the market is. Last week, it read -94, an extreme level that's only shown up ten times before. Two months later, the S&P was higher 9 out of 10 times with a gain of 4%. That's a strong signal to consider if you're too negative now.

Now let's zoom out. From my research, looking at the twelve months after mid-term Election Day, markets were higher 18 out of 18 times. The S&P 500 hasn't dropped in the 12

months *after* a mid-term election pullback since 1946 and averaged a 32% rally once the correction found its footing. That's what the market is seemingly working through now.

Now let's talk about oil. Phil Rosen looked at historical "oil shocks," and defined it as a 20% plus spike in oil prices over two days. There have been 7 of these setups before 2026. What happened next? The market was higher 6 out of 7 one year later. The only negative year was 2008. Let's face it, with the global financial crisis roaring, 2008 had bigger things to worry about. The average return across those periods was 24%.

We started this month in a bit of darkness so let's close with some light. The Iran conflict has dominated the headlines, and in my experience, investors overestimate how much geopolitics drive markets. There can be plenty of good reasons to sell stocks, but politics usually isn't one of them. Phil Rosen dug into this as well, and the results are tilted in the bulls' favor. Going back to the Korean War, there have been ten episodes.

One year later, stocks were higher 8 out of 10, with an average return of 14%. Don't dismiss the headlines but don't overrate them either. Stocks can act as a thermometer, repricing events FAST: often faster than the narrative can keep up. By the time fear peaks, stocks have often already moved higher. You know me, I like to flip my perspective. I'm picking out my buy candidates and will be taking advantage of lower prices. If you have any comments, feel free to contact me at heddins@capital-invest.com or call at 919-656-0836.

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