

Which Industry Groups Can Take A Punch?

Financials Know You Can Only Die Once

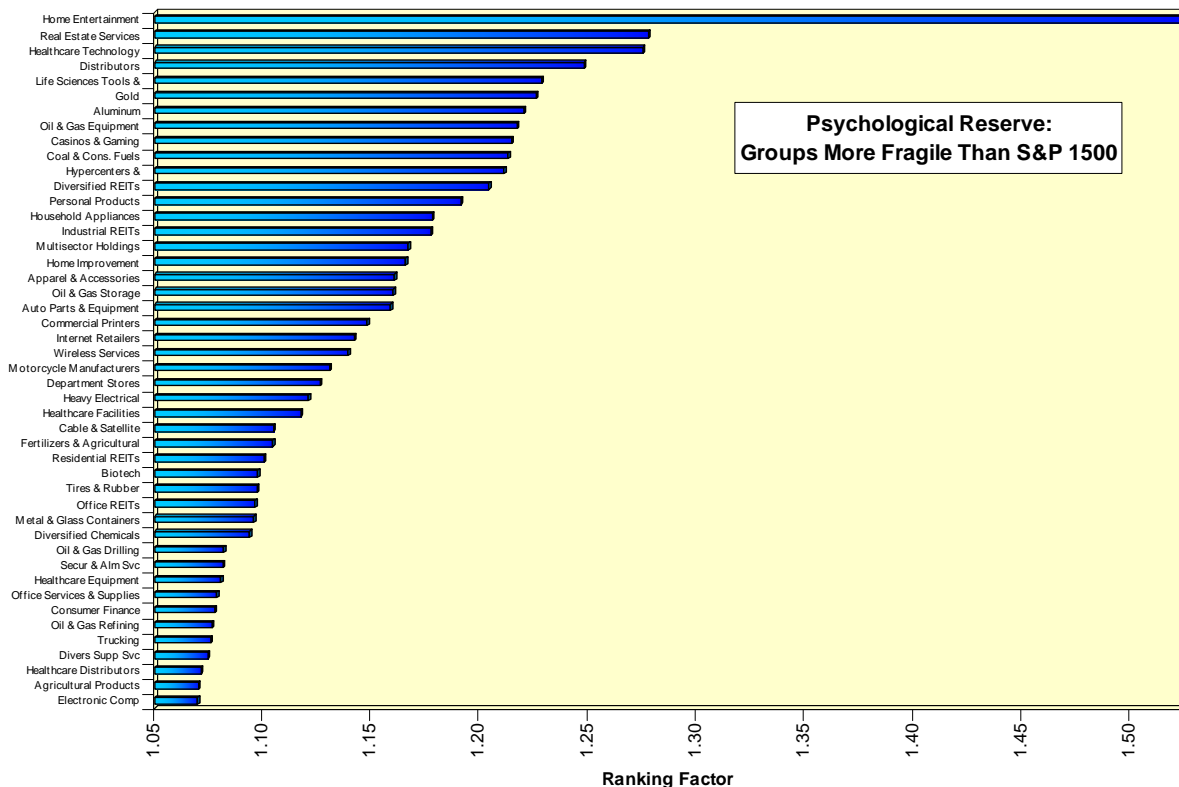
One of the worst aspersion cast upon a fighter is, “He has a glass jaw.” In finance as in the sweet science itself, the ability to take a hit is valued as everyone understands into every life a left jab must fall. I took a look at this concept in terms of various national stock markets two weeks ago in [Reviewing the Most Fragile and the Most Resilient Markets](#). The same technique can be applied to industry groups as classified by Standard & Poor’s (Motto: Get out of our way while we downgrade everyone).

The Ranking

To review, one way to measure the loss a trader feels is retracement of gain (GR), or the percentage drawdown from the market’s high. This can be adjusted in turn to account for the passage of time since that high occurred; I adjust it by dividing by the square-root of the year-fraction since that high was made. As a result, if the market’s high occurred two years ago, the adjustment factor would be 1.414; if it was six months ago, it would be the square root of one-half, or 0.707.

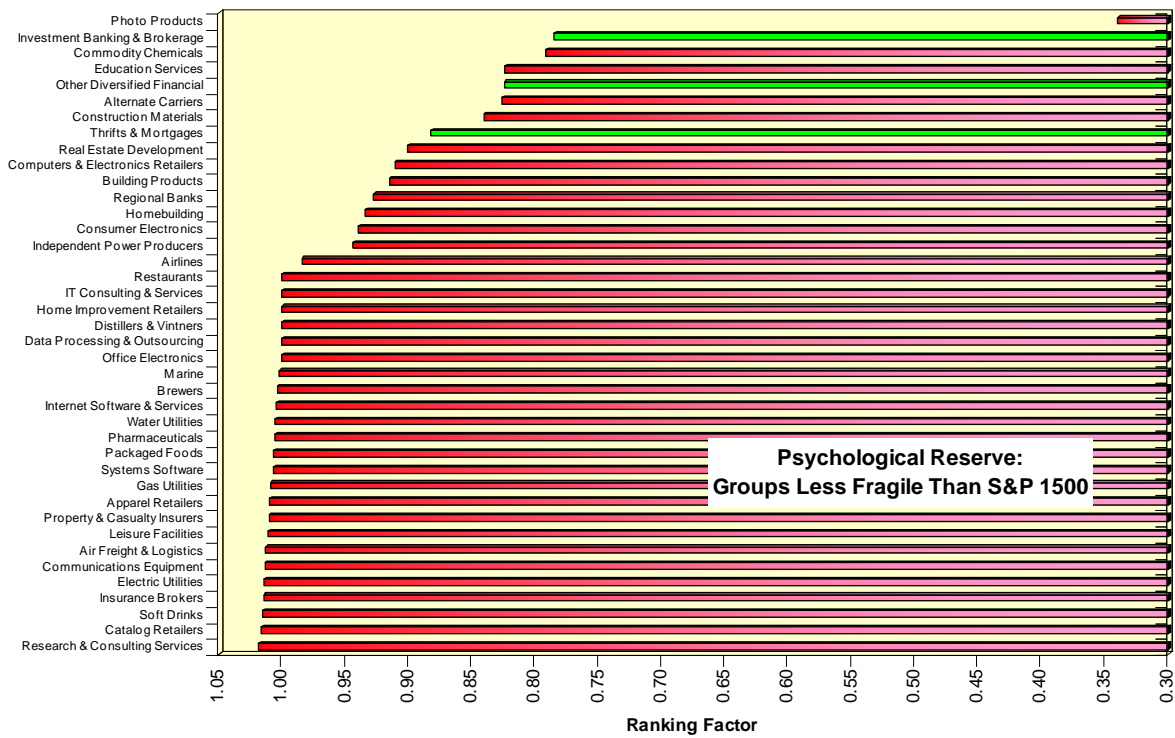
If I combine these two measures’ complements in a ratio of $(1+GR)/(1+GR_{adj})$ for a set of 147 industry groups, I can rank them in descending order of their downturns’ freshness. The charts below display these rankings on a price basis since the March 2009 low. I split the charts into those more and less resilient than the S&P 1500 and truncated them further in the interest of visual clarity.

First, let’s take the groups more psychologically fragile than the S&P 1500 itself, presented in descending order. At the top of this list is Home Entertainment Software, which includes Electronic Arts (ERTS), Take-Two Interactive Software (TTWO) and THQ (THQI). While the overall extent of this group’s retreat is not large, its high was hit at the start of November, which accentuates its time-adjustment factor. In second place is Real Estate Services, which includes CBRE Group (CBG) and Jones Lang LaSalle (JLL). Its pullback since April has exceeded 40%.



Who do we have at the other end of the spectrum? The most resilient is Photo Products, also known as Eastman Kodak (EK). We can ignore this one as its fate seems a given. Then the list gets interesting as it includes Investment Banking & Brokerage, which includes Goldman Sachs (GS), Morgan Stanley (MS), and Other

Diversified Financial Services, which includes Citigroup (C), Bank of America (BAC) and JP Morgan Chase (JPM). I highlighted these two groups along with Thrifts & Mortgages, in green.



Just as the most resilient global markets included already-trashed Greece and Ireland, the most resilient domestic industry groups include the financials who have been hit so hard not only since the start of the financial crisis but again in 2011 after the end of QE2.

If you are in these issues, you presumably are in them for a reason and have actual knowledge of the particular risks involved. You should not be a weak long. Does this mean you are immune from further damage? Of course not: You can lose 100% of your principal waiting for a bailout; just ask those who made a similar bet on the late MF Global.