

The January Effect

By: Shane Burke

Happy New Year! TPI wishes everyone a happy and healthy 2012. Each New Year provides us with a chance to reflect, as well as approach the upcoming year with optimism. We adopt this hopefulness both personally and professionally. A great example of this is the "January Effect". This phenomenon refers to the historical tendency for stock prices in general, and small-caps in particular, to rise during the first month of the year.

Behind the January effect is a historical fact that investors sell equities at the end of the year for tax purposes. In January they buy back into their portfolios, thus helping foster greater growth in the major stock indexes.

The January Effect was first recognized in the 1940s. Its actual strength wasn't quantified until 1982 when Donald B. Keim, now a finance professor at the University of Pennsylvania's Wharton School of Business, presented research detailing the market's January performance superiority dating back to 1925. Since revealing his findings, studies by several other groups have verified Keim's results, both in terms of positive overall January performance and the extra strength of small-cap stocks.

Professors at the University of New Hampshire's Whittemore School of Business and Economics reviewed stock market performance from 1926 to 2006 and found that January produced "the highest returns of any month of the year." Their study determined January posted positive returns 81.48% of the time, fueled by "outstanding small-firm performance." Moreover, a 2003 study by Ibbotson Associates, found that from 1926 through 2002, the smallest 10% of U.S. stocks outperformed the largest 10% of U.S. stocks by an average of 9.35% during the month of January.

On the flip side, a down January is a bad omen for the stock market. Yale Hirsch of The Stock Trader's Almanac suggests that since 1950, every down January in the S&P 500 preceded either a new or extended bear market, or in some cases, a flat market. They go on to further suggest that down January's are followed by substantial declines, averaging -13%.

The S&P 500 has posted a positive January return 8 times since 1945. In each of those years, the S&P 500 yielded a positive annual return, with an average gain of 16%. On the other hand, when January is a negative month, it has predicated a full-year loss 56% of the time, with an average decline of 3.9%.

While we cannot argue against the historical evidence of the January Effect, the world we live in today is very different from when many of these studies occurred. Today, our markets are impacted by the events happening both domestically and internationally. Europe continues to be a very influential driver of the U.S. markets, and news from Asia also impacts the broad U.S. market. We find the January Effect to be interesting and recognize that it may set the tone for the next 11 months. However, we believe the macro-economic events that dominated the headlines last year will continue to be the primary catalyst for 2012's performance.

Once again, TPI wishes everyone a Happy New Year. We look forward to working with you in 2012.

Special Report: Update - The Republican Caucus Race

The Presidential election is something that most American's follow closely. On Tuesday, the results from the Iowa caucus were tallied. In the closest Iowa contest since the modern caucuses were formed in 1976, former Massachusetts Gov. Mitt Romney eked out a narrow victory over former Pennsylvania Sen. Rick Santorum by 8 votes. Both men received 25% of the votes. On the other hand, it was another disappointing result for Michele Bachmann. After finishing in sixth place, the Minnesota congresswoman suspended her campaign. The next scheduled Republican primary will be held in New Hampshire on January 10, 2012. TPI will soon follow up with a more in-depth analysis.