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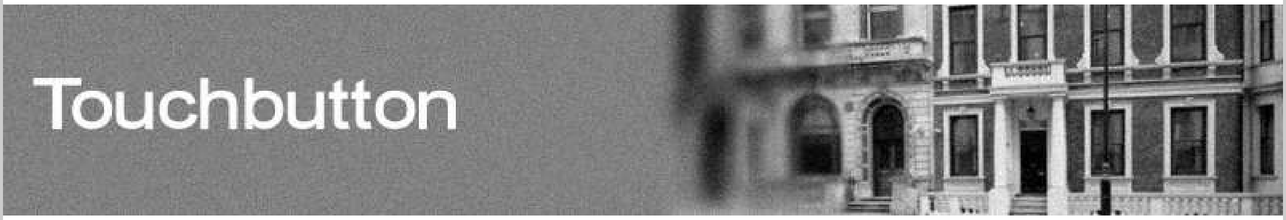

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Tea leaves and other infallible market forecasting techniques

In January 2012 we wrote about the power of numbers and how the first five days of January in markets can set the scene for the rest of the year. Last year, January got off to a good start, and the tea leaves looked good for a year of generally positive returns for markets. Indeed, the last 40 up first five days of the S&P 500 have now been followed by full year gains on 34 occasions, making for an 85% accuracy ratio for this as a forecasting aid. Sensible heads will tut tut, but there aren't many forecasting tools out there with the same success record! If one examines the month of January as a whole, the record is even better: as January goes, so the year goes has been the case in an astonishing 90% of occasions over the last 63 years.

How does it look for 2013? Well, the S&P 500 posted a gain in its first five trading days, which is encouraging. And since then, markets around the world have posted further gains, and most observers, ourselves included, view the year ahead with some cautious optimism. As we have said before, the fact is that there are very few satisfactory homes for investor capital right now: in the current circumstances holding cash remains a slow motion train crash in real terms, most people are over committed to property, and bond markets probably need the oxygen of QE to continue their Indian rope trick, although to be fair, there are some talented strategic bond managers out there who have demonstrated their ability to create returns, albeit modest ones, in quite difficult bond market conditions.

So this leaves equities. Happily, equities generally look reasonable value, assuming the absence of double dip recession and all the other thoroughly well examined banana skins that could trip everybody up. For this reason, investors should ensure that they are as fully committed to equities as their risk tolerance will permit, sit back, and hope the tea leaves are right again.

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