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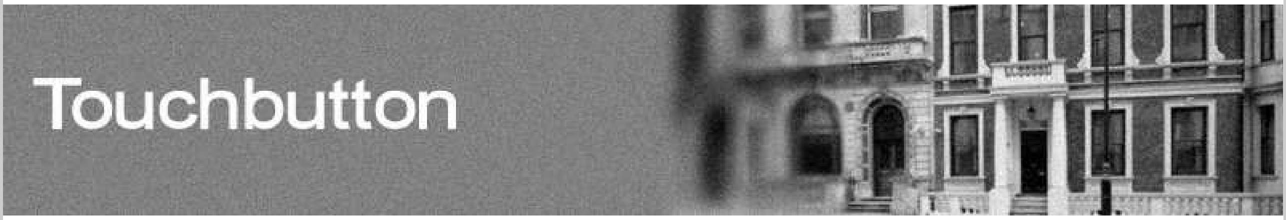

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The power of numbers

If you are weary of reading the new year stockmarket forecasts from wise old stockbrokers for 2014 – almost unanimously good, which is something of a worry – then a quick look at the historical trends of January may provide some light relief.

In the USA in particular, great attention is paid by certain types of investor to how January pans out, the saying going – ‘how goes January, so goes the rest of the year.’ One shouldn’t mock this tea-leaf searching that goes on. The Stock Trader’s Almanac, which follows assiduously every market trend one could ever imagine (*think likelihood of market falling on a Thursday when it rains and chances are they have the stats back 100 years*) is a highly regarded journal and there is a dog eared copy on virtually every Wall Street trading desk.

In 2013 we reviewed the January data (issue 14) and predicted a strong year for equities. This proved to be true with the S&P achieving a return of almost 30% and the UK market up nearly 20%.

Now that January 2014 is well underway, it is interesting to see how some of the long term historical patterns are looking. First up – the First Five Trading Days: the S&P 500 failed to post a gain over the first five trading sessions of the year, officially making the First Five Day early warning system negative. S&P’s 0.6% decline is the first loss since 2008 when the index plunged 5.3% in the first five days. The last 23 down First Five Days have been followed by full-year declines 11 times for a 47.8% accuracy ratio and a 0.2% average gain in all 23 years.

Excessively bullish sentiment and this poor start to 2014 are seen by technical analysts as worrisome; however given the First Five Days propensity for error (not to mention an accuracy record of about 50:50!), the much more accurate barometer of January as a whole is likely to be looked at more closely.

Since 1934, January’s direction for the month has correctly forecasted the major trend for the market in 81.6% of the subsequent years. That’s not bad going, and a track record that any conventional pundit would be proud of.

So how is January looking? Well, we are only at the half way point, so it’s too early to be drawing any conclusions either way, but at the close on 17 January, the S&P 500 was posting a year to date decline of 0.39%. It may be a close call.

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