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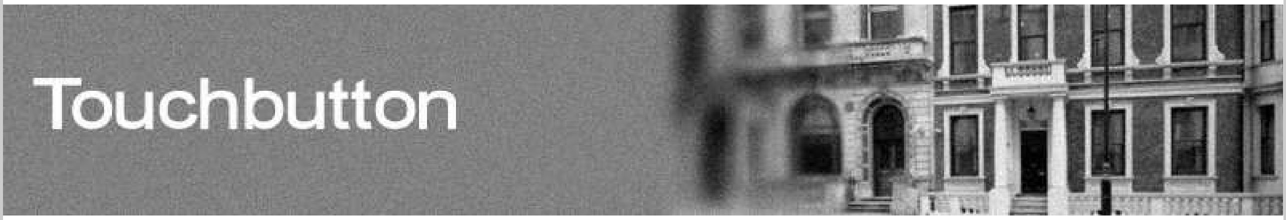

No: 24, February 2014

The January Barometer – results are in

Last month we wrote about the historical trends of January and its predictive ability of '*how goes January, so goes the rest of the year*'. Since 1950, the indicator has registered only seven major errors, (and these all occurred in secular bear markets), thus resulting in an accuracy ratio of 89.1%. Military conflict affected 1966, 1968 and 2003 (Vietnam and Iraq); 1982 and 2009 heralded the start of major new bull markets; 9/11 affected 2001, and QE possibly saved the day in 2010.

Friday's close for January meant that the S&P 500 finished January down 3.6%, whilst the Dow Jones fell by 5.3%. As the five year bull market matures, this is potentially ominous for those who set store by historical patterns, but all is not lost, and it is too early to think about writing off 2014 as a poor year for equities, for several reasons.

First, the US economic recovery is comfortably underway, and the housing market is also picking up. Second, the tapering of QE is just that: liquidity continues to be pumped into the system at enormous levels, just not as enormous as in 2013. It is perfectly reasonable to assume that corporate earnings will continue to improve, and this should underpin share prices, and possibly act as the driver of another upward leg in share prices.

Most people, believers in trends or not, have always suggested that 2014 will be a trickier year for equity markets. The January Barometer has done nothing to alter that view, but it has underlined it.

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