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Market Facts

The Myth Of The January Indicator

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As is the case every January, the financial media try to draw conclusions for the remainder of the year from the first few trading days. These studies are so popular that two phrases have been coined to describe them – "as goes the week, so goes the year" and, "as goes the month, so goes the year." Do these adages have a basis in fact?

As Goes the Week . . .

The tables below show the historical record of the S&P 500 (Table 1) and the Dow Jones Industrial Average (DJIA, Table 2). We defined the first week of the year as the week ending with the first Friday in January.

Table 1 - The S&P 500

As goes the week . . . so goes every week						
A Look at **all weeks** in the **S&P 500** back to 1928						
When	**Number of weeks**	**Pct.**	**Average Gain/Loss**	**Pct. of the time up over the next 51 weeks**	**Pct. of the time down over the next 51 weeks**	**Average Gain/Loss**
Up for the week	2237	56%	1.69%	68.08%	31.92%	7.80%
Down for the week	1742	44%	-1.85%	64.70%	35.25%	6.94%
Unch. for the week	25	1%	0.00%	64.00%	36.00%	7.76%
A look at only **the first** week of the year						
When	**Number of weeks**	**Pct.**	**Average Gain/Loss**	**Pct. of the time up over the next 51 weeks**	**Pct. of the time down over the next 51 weeks**	**Average Gain/Loss**
Up for the week	53	71%	1.94%	64.15%	35.85%	6.12%
Down for the week	22	29%	-1.39%	54.55%	45.45%	4.28%
Unch. for the week	0	-	-	-	-	-

Source: Logical Information Machines, Austin Texas (www.lim.com)

Table 2 - The Dow Jones Industrial Average (DJIA)

As goes the week . . . so goes every week						
A Look at **all weeks** in the **DJIA** back to 1901						
When	**Number of weeks**	**Pct.**	**Average Gain/Loss**	**Pct. of the time up over the next 51 weeks**	**Pct. of the time down over the next 51 weeks**	**Average Gain/Loss**
Up for the week	2979	56%	1.66%	65.89%	34.11%	7.73%
Down for the week	2340	44%	-1.82%	61.97%	37.99%	6.26%
Unch. for the week	7	0%	0.00%	71.43%	28.57%	22.15%
A look at only **the first** week of the year						
When	**Number of weeks**	**Pct.**	**Average Gain/Loss**	**Pct. of the time up over the next 51 weeks**	**Pct. of the time down over the next 51 weeks**	**Average Gain/Loss**
Up for the week	72	71%	1.95%	62.50%	37.50%	5.35%
Down for the week	30	29%	-1.22%	66.67%	3.33%	7.37%
Unch. for the week	0	-	-	-	-	-

Source: Logical Information Machines, Austin Texas (www.lim.com)

The top panel of each table shows all weeks as a predictor of the following 51 weeks. The bottom panel of each table shows the same indicator for only the first week of the year. We show both the DJIA and the S&P 500 since these two indices have the longest histories for the U.S. market.

What jumps out of the tables is how "average" the first week of the year is at predicting the rest of the year. Since 1928, if the S&P 500 is up the first week of the year, the next 51 weeks are up 64.15% of the time. While that might sound impressive, this same study for any other week shows an up week predicts the next 51 weeks will be higher 68.08% of the time. So the first week of January is actually worse than average, but not enough to be statistically significant.

For down weeks, the results are even worse. When the S&P 500 is **down** the first week of January, the next 51 weeks are **up** just 54.55% (down 45.45%) of the time. Statistically this is little better than a coin toss and far worse than the results of any other week which shows a **down** S&P 500 means the next 51 weeks are **up** 64.70% (down 35.3%) of the time. While the down week indicator is wrong more than it is right, it's far enough away from a coin toss to be more meaningful (but again not enough to be statistically significant).

As Goes the Month . . .

The other popular phrase is "as goes the month, so goes the year . . ." This is exactly the same as "as goes the week . . ." except it covers the entire month. We used the S&P 500 **total return** data back to 1926 for this study. We compared January to all months much like we compared the first week of the year to all weeks.

Table 3

As Goes The Month . . .
A Look at S&P 500 Total Returns
for all Months since 1926

Rank	Month	Up Month	Up 11 Months Later	% correct
	All	**585**	**445**	**76.07%**
1	April	48	41	85.42%
2	September	38	31	81.58%
3	May	51	41	80.39%
4	**January**	**50**	**40**	**80.00%**
5	November	52	41	78.85%
6	March	49	38	77.55%
7	February	46	35	76.09%
8	June	48	36	75.00%
9	October	48	34	70.83%
10	August	51	36	70.59%
11	December	57	40	70.18%
12	July	47	32	68.09%
Rank	**Month**	**Down Month**	**Down 11 Months Later**	**% correct**
	All	**365**	**117**	**32.05%**
1	**January**	29	13	**44.83%**
2	May	16	7	43.75%
3	November	32	13	40.63%
4	July	28	11	39.29%
5	December	34	12	35.29%
6	March	32	11	34.38%
7	April	30	10	33.33%
8	August	41	13	31.71%
9	June	29	7	24.14%
10	October	32	7	21.88%
11	September	33	7	21.21%
12	February	29	6	20.69%

Source: Logical Information Machines, Austin Texas (www.lim.com)

As the top panel of table 3 shows, January is no more predictive than many other months. If the month of January is up, the market is up 11 months later 80% of the time. While this may sound impressive, note that several months have a similar track record and three months actually have a better record (April, May, and September). Since all up months project positive returns 11 months later about 76% of the time, this suggests that the month of January is only slightly better than the average up month at predicting the direction of the market.

The bottom panel shows the results for the 11 months after a given month is down. If the month of January is down, the market is down 11 months later 45% of the time. While a down January ranks number one of all months in correctly predicting the direction of the market, it is barely better than a coin toss in predicting the market 11 months later.

Conclusion

In this business all too often many rational people are guided by the phrase uttered by Mr. Banks in the 1964 Academy Award Winning Film *Mary Poppins*, "Kindly do not let the facts get in the way."

The facts show that there is nothing special about the trading in the first week or the first month of the year in predicting the entire year. We are not the only one to point this out. Yet, that does not stop many from highlighting this fact every year – including this year.

Why won't this idea go the way of the Super Bowl indicator, which has incorrectly predicted the market five of the last eight years thus losing its sex appeal? Because the track record of the first week and all of January are well above a coin toss. Up Januarys have correctly predicted the rest of the year will be higher 80% of the time. While that sounds impressive, it fails to impress when put in the context that any up month predicts the next 11 will be up 76% of the time and April, May, and September are better predictors than January. Likewise the first week of the year correctly predicts the rest of the year 64.15% of the time. While this sounds impressive too, it does not when you find out that any up week says the next 51 weeks will be higher 68.08% of the time.

If you are still a fan of the January indicators, can I interest you in some May Indicators?

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