

BIANCO RESEARCH, L.L.C.

AN ARBOR RESEARCH & TRADING, INC. AFFILIATE
1000 HART ROAD • SUITE 250 • BARRINGTON, ILLINOIS 60010
E-MAIL: jbianco@biancoresearch.com • WEB SITE: www.BiancoResearch.com
TOLL FREE 800-876-1825 • PHONE 847-304-1511 • FAX 847-304-1749

James A. Bianco, CMT

Volume, 5 No. 2

Last Market Facts: January 3, 2000

MARKET FACTS

A Historical Look At The Markets

January 11, 2000

As Goes the Week . . . As Goes the Month . . .

A variation of seasonal studies in the stock market is the belief that January's price action is an indicator of the entire year. In fact, 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." In this *Market Facts*, we look at the historical record of these two statements.

As Goes the Week . . .

Tables 1 and 2 show the historical record of the Dow Jones Industrial Average (DJIA) and the S&P 500. 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 history in our database.

What jumps out of tables 1 and 2 is how good the first week of the year is at predicting the entire year. The stock market does well for the year when the first week is up and does not do well when the first week is down. This is the case for both indices.

This year, however, we have split results for these two indices. Last week the DJIA was up for the week, which is bullish and the S&P 500 was down for the week, which is bearish.

How many times has the DJIA been up and the S&P 500 been down for the first week of the year? Since 1928, it has happened only three times – 1969, 1974 and 1992. The average loss for these three years is -7.76%.

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.

As the top panel of table 3 shows, January is no more predictive than several other months. If the month of January is up, the market is up 11 months later 81.25% 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. Since all up months project positive returns 11 months later about 77% 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 44% of the time. While a down January ranks number one of all months in correctly predicting the direction of the market, it is slightly worse than a coin toss in predicting the market 11 months later.

Conclusion

"As goes the week, so goes the year" should be followed closely. Empirical evidence suggests that the results of the first week of January are a good predictor of the results for the entire year. "As goes the month, so goes the year" seems questionable. January appears to be no more predictive than some other months of the year in calling the direction of the market for the year. This suggests that the monthly January indicator has limited value.

This year we have a "split decision" with the DJIA gaining and the S&P 500 losing in the first week of 2000. Three other divergences between the DJIA and the S&P 500 resulted in negative stock market performance on average. However, a sample of three might be considered statistically insignificant so we would prefer to say that the indicator is inconclusive this year.

Table 1

As goes the week . . . so goes every week						
A Look at all weeks in the <u>S&P 500</u> back to 1928						
When	Number of weeks	Pct.	Average Gain/Loss	Pct. of the time <u>up</u> over the next 51 weeks	Pct. of the time <u>down</u> over the next 51 weeks	Average Gain/Loss
Up for the week	2075	56%	1.67%	68.53%	31.47%	8.40%
Down for the week	1594	43%	-1.85%	65.81%	34.13%	7.63%
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 <u>up</u> over the next 51 weeks	Pct. of the time <u>down</u> over the next 51 weeks	Average Gain/Loss
Up for the week	48	68%	4.31%	79.17%	20.83%	9.61%
Down for the week	23	32%	-3.95%	52.17%	47.83%	-0.41%
Unch. for the week	0	-	-	-	-	-

Table 2

As goes the week . . . so goes every week						
A Look at all weeks in the <u>DJIA</u> back to 1901						
When	Number of weeks	Pct.	Average Gain/Loss	Pct. of the time <u>up</u> over the next 51 weeks	Pct. of the time <u>down</u> over the next 51 weeks	Average Gain/Loss
Up for the week	2811	56%	1.65%	66.63%	33.37%	8.19%
Down for the week	2195	44%	-1.81%	62.42%	37.54%	6.58%
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 <u>up</u> over the next 51 weeks	Pct. of the time <u>down</u> over the next 51 weeks	Average Gain/Loss
Up for the week	64	65%	3.78%	68.75%	31.25%	7.28%
Down for the week	33	34%	-3.60%	54.55%	45.45%	3.83%
Unch. for the week	1	1%	0%	100.00%	0%	42.64%

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	546	421	77.11%
1	April	45	39	86.67%
2	September	36	30	83.33%
3	May	47	39	82.98%
4	January	48	39	81.25%
5	November	46	37	80.43%
6	March	45	36	80.00%
7	February	44	34	77.27%
8	June	43	33	76.74%
9	August	47	33	70.21%
10	December	57	40	70.18%
11	October	43	30	69.77%
12	July	45	31	68.89%
Rank	Month	Down Month	Down 11 Months Later	% correct
	All	328	99	30.18%
1	January	25	11	44.00%
2	December	16	7	43.75%
3	April	28	11	39.29%
4	November	27	10	37.04%
5	February	29	10	34.48%
6	March	27	9	33.33%
7	September	36	11	30.56%
8	June	30	9	30.00%
9	August	26	6	23.08%
10	October	30	6	20.00%
11	July	28	5	17.86%
12	May	26	4	15.38%