



## The January Barometer

As the first month of 2014 is now in the books, we will be reading and hearing about the January effect and how goes the month of January, goes the year.

Last month was the first down month since last August, so let's just say we were due. Most North American indices were down 4-5% for the month, which was the first down January since 2010. Many market participants will be tempted to fret about how January predicts the year, especially after coming off the best yearly gain in 16 years on the US indices.

The January barometer has been right in 62 of the last 85 years, or 73% of the time. Since 1929, the index followed January's lead 80% of the time when it finished positive, and 60% of the time when it finished negative.

The chart below tracks back to 1979:

Year	S&P 500		Dow		NASDAQ	
	Jan.	For the Year	Jan.	For the Year	Jan.	For the Year
2013	5.04	29.6	5.77	26.5	4.06	38.32
2012	4.36	13.41	3.4	7.26	8.01	15.91
2011	2.26	-0.003	2.72	5.53	1.78	-1.8
2010	-3.7	12.78	-3.46	11.02	-5.37	16.91
2009	-8.57	23.45	-8.84	18.82	-6.38	43.89
2008	-6.12	-38.49	-4.63	-33.84	-9.89	-40.54
2007	1.41	3.53	1.27	6.43	2.01	9.81
2006	2.55	13.62	1.37	16.29	4.56	9.52
2005	-2.53	3	-2.72	-0.61	-5.2	1.37
2004	1.73	8.99	0.33	3.15	3.13	8.59
2003	-2.74	26.38	-3.45	25.32	-1.09	50.01
2002	-1.56	-23.37	-1.01	-16.76	-0.84	-31.53
2001	3.46	-13.04	0.93	-7.1	12.23	-21.05
2000	-5.09	-10.14	-4.84	-6.18	-3.17	-39.29
1999	4.1	19.53	1.93	25.22	14.28	85.59
1998	1.02	26.67	-0.02	16.1	3.12	39.63
1997	6.13	31.01	5.66	22.64	6.88	21.64
1996	3.26	20.26	5.44	26.01	0.73	22.71
1995	2.43	34.11	0.25	33.45	0.43	39.92
1994	3.25	-1.54	5.97	2.14	3.05	-3.2
1993	0.7	7.06	0.27	13.72	2.86	14.75
1992	-1.99	4.46	1.72	4.17	5.78	15.45
1991	4.15	26.31	3.9	20.32	10.8	56.84
1990	-6.88	-6.56	-5.91	-4.34	-8.58	-17.8
1989	7.11	27.25	8.01	26.96	5.22	19.26
1988	4.04	12.4	1	11.85	4.29	15.41
1987	13.18	2.03	13.82	2.26	12.4	-5.26
1986	0.24	14.62	1.57	22.58	3.51	7.53
1985	7.41	26.33	6.21	27.66	12.67	31.15
1984	-0.92	1.4	-3.02	-3.74	-3.65	-11.22
1983	3.31	17.27	2.79	20.27	6.86	19.87
1982	-1.75	14.76	-0.45	19.61	-3.8	18.67
1981	-4.57	-9.73	-1.74	-9.23	-2.24	-3.21
1980	5.76	25.77	4.42	14.93	7.73	34.77
1979	3.97	12.31	4.25	4.19	6.65	27.26
	Negative:	5	Negative:	7	Negative:	6
	Positive:	20	Positive:	22	Positive:	20
	% of Total:	71%	% of Total:	83%	% of Total:	74%

More recently, in the past 35 years, the S&P 500 followed January's direction 25 times (71% of the time). However, logically, this statistic is skewed by the fact it includes January in that full year performance. We are already down 4-5% for 2014.

That would mean a year like 1987, where January was +14%, but after the October crash finished just +2% on the year, so following

January's lead would have yielded a 10% loss! (Yet the stat would count as a positive for the year).

Using recent data back to 1979, the S&P 500 rose in 23 out of 25 Januaries. Over the next 11 months, markets were up 19 of 23 years kicked off by winning January's (83% batting average). But in the 12 years when the markets fell in January, the market followed its lead in only 4 years (just a 33% success rate).

So looking at that data, one would deduce that positive January's prove to be a great barometer, negative ones not so good.

I've already stated I expect 2014 to be an "ok" year, maybe in the 6-9% range, but with a lot more volatility (which we've already seen). Using another "barometer," the Presidential cycles, we are in year two which tend to be sloppy. If we can get through 2014 AOK then we go into the last two years of the cycle which tend to be the best ones for equities.

Stay tuned,

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