STANDARD & POOR'S

As Goes January, So Goes the Year?

Since 1945, whenever the S&P 500 advanced in price in January, it continued to rise, on average, 11.6% during the remaining 11 months of the year.

January was encouraging for stock investors, with each major U.S. index rising in value during the month. Co this portend a third consecutive year of stock market gains in 2011?

There's an old saying in the stock market that comes to mind each winter: "As goes January, so goes the year.' implies that if the market goes up (or down) in January, it will continue to rise (or fall) for the rest of the year.

The adage has been questioned recently, however, as the S&P 500 fell in both January 2009 and 2010, only to the market rise by 35% and 17%, respectively, in the remaining 11 months.[1] Yet it may still have merit, particularly when predicting positive full-year performance.

Historical "Directional" Signs

Since 1945, whenever the S&P 500 advanced in price in January, it continued to rise an average of 11.6% dur the remaining 11 months of the year. That's substantially higher than the average 7.2% price gain for the S&P during all 11-month periods since World War II. Also, this early upward "directional signal" was correct 85% the time.[1] According to Standard & Poor's Chief Investment Strategist Sam Stovall, no other month works so v as a year-ahead indicator.

January Barometer Portfolios (1/31/11)

Best Sectors	% Chg.	10 Best Sub-Industries	% Chg.	10 Worst Sub-Industries	% Ch
Energy	7.3	Motorcycle Manufacturers	14.4	Brewers	(6.6
Industrials	4.2	Electronic Components	12.6	Leisure Products	(6.7
Info. Technology	4.2	Semiconductor Equipment	11.7	Distillers & Vintners	(7.7
		Multi-Sector Holdings	11.4	Office Electronics	(7.8
S&P 500	**2.3**	Managed Health Care	11.3	Trucking	(8.7
		Office REITs	9.6	Airlines	(8.7
Worst Sectors	**% Chg.**	Construction & Engineering	9.3	General Merchandise Stores	(8.9
Cons.Discretionary	(0.7)	Oil & Gas Storage & Transp.	9.0	Diversified Metals & Mining	(8.9
Cons. Staples	(1.8)	IT Consulting & Other Svcs.	9.0	Gold	(10.4
Telecom. Services	(3.8)	Oil & Gas Equip. & Services	8.9	Thrifts & Mortgage Finance	(11.2

Source: Standard & Poor's Equity Research. Past performance is no guarantee of future results.

Even though past performance is no guarantee of future results, the success of the January Barometer in forecasting the direction of the overall S&P 500 during the remainder of the year begs the question of whether January could also be a good predictor of year-ahead performances for sectors and subindustries in the S&P 5(The answer, historically, has been "yes." In addition, sector and subindustry January Barometer portfolios hav frequently beaten the market whether the S&P 500 rose or fell in January.

Portfolio Planning

So will the stock market be able to maintain its January momentum and record a third consecutive year of gro in 2011? Only time will tell. But history may offer valuable insights to keep in mind as you manage your portf this year.

- **Keep your long-term priorities in focus.** While the January Barometer is certainly an interesting historical phenomenon, making large-scale changes to your investment strategy based on the market's performance over short time periods may not be prudent. Instead, review your portfolio and rebalance i necessary) on a regular schedule, such as once or twice a year. Always strive to be sure your asset allocation and diversification strategies reflect your outlook and risk tolerance.
- **Consider industry sectors and subindustries, too.** Since 1970 the S&P 500 posted a 12-month (Janu 31 to January 31) average price change of 8.2%. By comparison, the 10 subindustries in the S&P 500 v the highest January price performances went on to record an average 17.6% price appreciation in the following 12 months. The three sector indexes in the S&P 500 that posted the best January performanc went on to record an average annual price increase of 11.5%.[2]
- **Greater returns came with greater risks.** During the same time period, the standard deviation of the S&P 500's annual price performances was 16.7, compared with 24.8 for the top subindustries and 24.0 the top sectors.[2]
- **History is no guarantee.** This is also a good time to remember that what worked in the past may not always work in the future. For example, both the January Barometer Portfolio for SubIndustries and th January Barometer for Sectors have gone through slumps and have underperformed one or more years row.

[1]Standard & Poor's Composite Index of 500 Stocks is an unmanaged index that is generally considered representative of the U.S. stock market. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

[2]Source: Standard & Poor's Equity Research. Past performance is no guarantee of future results.