January: A Clue for the Year?

Historically, a positive return for the S&P 500 has been an early signal of a positive total return for the calendar year.

The strongest performing sectors in January may continue to outperform the S&P 500 for the remainder of the year.

There's a popular saying on Wall Street: "As goes January, so goes the year." Although past performance does not guarantee future results, historically a strong January has been a predictor of a positive total return for the calendar year. There may be several reasons for this phenomenon. Investors with losing positions in stocks may be likely to sell their securities in December, and reinvest the proceeds in January, with the new investments sending stock prices higher. In addition, those looking for favorable tax treatment may be likely to hold new positions for one year or longer to benefit from tax rates on long-term capital gains, which are lower than taxes on short-term capital gains. The table below provides an indication of the historical accuracy of the January Barometer.

January Barometer, 1946-2011

S&P 500 January Return	Number of Occurrences	S&P 500 Return February Through December	January Barometer Was Correct
Positive	41	14.46%	85% of the time
Negative	25	3.48%	44% of the time
All Years	66	10.30%	70% of the time

Source: McGraw-Hill Financial Communications. For the period beginning January 1, 1946, and ending December 31, 2011. The 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 does not guarantee future results. Investing in stocks involves risk, including loss of principal.

What Investors Can Do

If you believe that the January Barometer offers potential for your portfolio, consider the following:

- **Consider the effect of volatility.** The January Barometer historically has signaled the total return of the S&P 500 for the calendar year, not the level of volatility. Review investments that historically have not moved in tandem with either the S&P 500 or with January's top-performing sectors in an attempt to smooth out short-term returns.
- **Be patient.** The January Barometer's reliability does not necessarily mean that stocks will go up continuously for the remainder of the year. Since 1945, when examining average monthly price performance of the S&P 500, February ranks 11 out of 12, one notch above last-place September, with a positive return 51% of the time.[2] The S&P 500 frequently experiences ups and downs throughout the year.
- **January provides clues to sector performance, too.** Since 1990, the average annual return of a portfolio consisting of January's three top-performing sectors outperformed the S&P 500 during the subsequent 12-month period (January 30 through January 30) 67% of the time, although past performance does not guarantee future results. During January 2012, the top-performing sectors were Materials with a gain of 11.1%, Financials with a gain of 8.1%, and Information Technology with a gain of 7.6%.[3] Investments in specialized industry sectors may be more volatile than investments that diversify across many sectors or industries.

A strategy based on the January Barometer may be a relatively simple way of getting an early read on market performance for the remainder of 2012. But remember that any strategy can be influenced by unforeseen events. As a precaution, be sure to diversify.

[1]Source: McGraw-Hill Financial Communications.

[2]Source: S&P Capital IQ, *Global Equity Strategy, U.S. Sector Watch*, "Post Baby Bear Performances," January 30, 2012.

[3]Source: McGraw-Hill Financial Communications. Sector performance is measured by the total return of sectors within the S&P 500 during January 2012.

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