Registered Investment Advisor Firm

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Barometers

With the volatility of the New Year trading action and the upcoming Super Bowl, I thought this would be a good time to discuss stock market indicators and how effective are they in prognosticating the market direction. Some are market timing indicators

The "Super Bowl" indicator states that the stock market's performance in a given year can be predicted based on the outcome of the Super Bowl of that year. If a team from the American Football Conference (AFC) wins, then a bear market (or down market) will follow, but if a team from the National Football Conference (NFC) wins, then a bull market (up market) follows.

Accuracy: 65%, 32 out of 49 times.

The "January Barometer" is a theory stating that the movement of the S&P500 during the month of January sets the stock market direction for the year. If the S&P500 was up at the end of January compared to the beginning of the month, you would expect that the stock market to rise during the rest of the year. Conversely, if the S&P500 was down for the month, then the rest of year would decline.

Accuracy: since 1950 it has been successful 72% of the time.

The "First five trading days in January" indicator states that as the first five trading days go, so goes the rest of the year.

Accuracy: 65% correct as measured by the Dow Jones Industrial Average (DJIA).

The "Calendar Effect" is a collection of assorted theories that assert that certain days, months or times of the year are subject to above-average price changes in the market indexes and can therefore represent good or bad times to invest. Some theories that fall under the calendar effect include the 'Monday Effect", the "October Effect", the "Halloween Effect" and the "January Effect".

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Accuracy: there is a slight statistical case to be made for some of them. While statistical evidence doesn't support the October effect that stocks trade lower in October, the psychological expectations of the effect still exist. Historically, many of the major downturns have started in October.

The January effect is said to affect small caps more than mid or large caps. This historical trend has been less pronounced in recent years because investors are adjusting for the year-end tax-loss selling and more investors are using tax-sheltered retirement plans that reduce the need for tax loss selling.

Halloween is a substantial industry and has an impact on the economy. However, it is very difficult to identify exactly what that impact is and whether it is a net positive.

Studies have shown correlation of the Monday effect, but no one theory has been able to accurately explain it.

Academic research has discovered several other indicators that show a strong correlation with the S&P500 index. The indicator that had the highest correlation: butter production in Bangladesh. Other indicators with strong correlation include ice cream production and airline travel.

Most, if not all of these indicators do not show a cause and effect. Several have no real connection, just coincidence and therefore, there is no reason to expect they will work as a predictor of future market action. The "January Barometer" and the "First five trading days in January" are pointing to lower and volatile markets in 2016. However, they are fun to watch, observe and sometimes root for. **GO Carolina Panthers**

FED Watch

No change to the Fed Funds rate (.25%-.5%) The Fed's statement referred to tame inflation, global weak economies, US labor market OK and a softening of the US stock market.

A hold for this month, but still on the table for March.

Still on the edge of our seats.

Davis Investment Group

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If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at: Bob@DavisInvestmentGroup.biz

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