

Business

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Gauging the January Barometer



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“**A**s January goes, so goes the year.” That saying refers to what’s known as the January Barometer, where January’s movement is considered to be an indicator of how the market will perform for the rest of the year.

If this indicator has value, then it’s a bad sign because stocks are having their worst month since February 2009.

The start of this year was the worst ever, with the S&P 500 falling 5.9 percent in the first six trading days. Does that have implications for the rest of the year?

If we look at other years with the terrible starts, we get a bullish picture. In 1991, stocks fell 5.7 percent during the first six days, but closed up 30 percent by the end of the year.

In 1978, the market started out down 5.2 percent and ended the year up 1 percent. In 1982, stocks began the year down 4.7 percent and ended the year up 20 percent.

Finally, in 1998, stocks began the year down 4.4 percent and ended the year up 28 percent. So, is today’s market a great buying opportunity? Not so fast.

There were also cases when stocks started bad and got worse. In 1974, the S&P 500 fell 4.2 percent and ended the year down 30 percent.

In 2008, stocks began the year down 4 percent and ended the year down 37 percent. Overall, how stocks trade at the start of the year has little predictive value for how the year will unfold.

Does the month of January have any predictive value at all? Not when January is a loss. When January is a loss, the market ends the year with gains about 60 percent of the time.

The market has suffered steep losses. True. Fortunately, January’s losses do not necessarily serve as a barometer for how the market will do for the rest of the year.

Stocks are on pace to have their worst monthly performance since February 2009. That sounds bearish, but that February seven years ago was one of the best buying opportunities of our lifetime. Opportunities emerge from market weakness.

David Vomund is an Incline Village-based fee-only Registered Investment Advisor. Information is found at www.VomundInvestments.com or by calling 775-832-8555. Past performance does not guarantee future results. Consult your financial adviser before purchasing any security.