The January Indicator

Introduction

"*As goes January, so goes the year*". This well known stock market idiom suggests that the market's performance during the month of January is a good indicator of its performance for the remainder of the year.

In this study we will try to determine whether January does indeed possess special predictive powers, or whether the January Indicator is just another outdated stock-market myth.

Analysis

For our analysis we will use the S&P500 Index (SPX) from 1963 to 2014 (51 years).

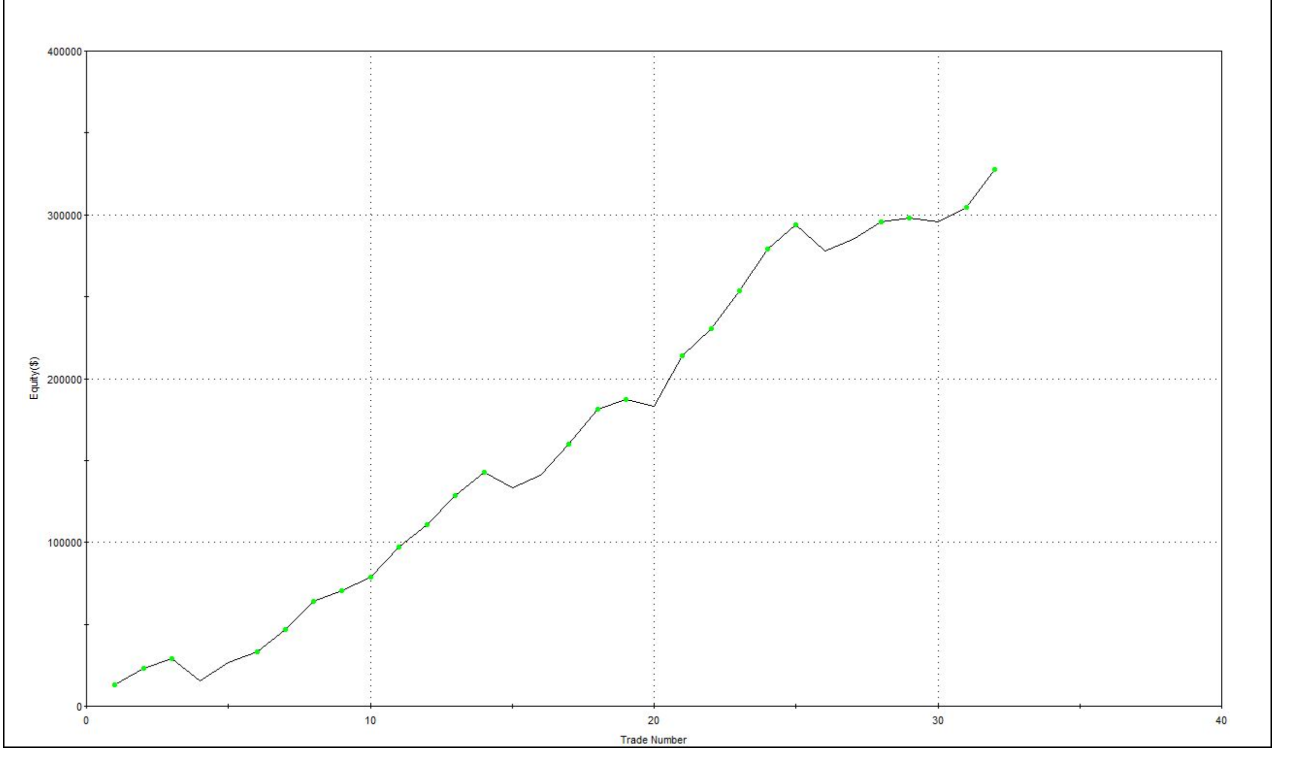
Below are the results of buying the index on the 1st day of February and selling on the last day of December, depending on whether January was positive or negative:

Condition	*All Trades*	*Winning Trades*	*Losing Trades*	*% Profitable*	*Profit Factor*
January was UP	32	27	5	84.38 %	8.10
January was DOWN	19	11	8	57.89 %	1.10
Either	51	38	13	74.51 %	2.93

The win rate and profit factor for years that followed strong Januaries are very impressive. The same data for years that followed weak Januaries is essentially neutral – neither positive nor negative.

The chart below shows the equity curve for positions taken after positive Januaries:

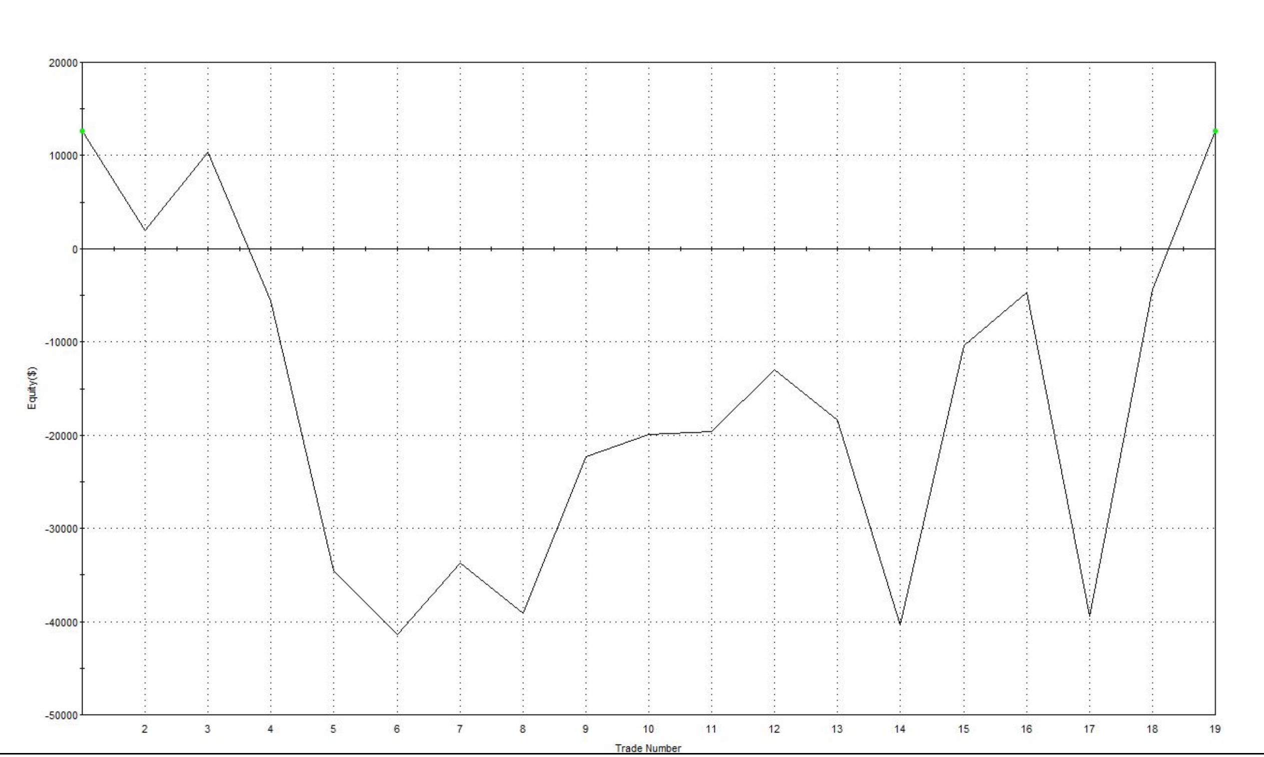
February to December performance when January was an UP month



The strong and steady equity curve for the positive January trades is quite remarkable. It suggests that the January Indicator has indeed been consistent throughout the past half-century.

Now let's look at the equity curve for positions taken after negative Januaries:

February to December performance when January was a DOWN month



The chart here is considerably choppier, and the profit factor of 1.10 means that the trade expectancy is essentially neutral. So while strong Januaries appear to hold a statistically significant predictive edge, weak Januaries hold no predictive edge – either positive or negative.

To further develop on this concept of a predictive start-of-the-year, below is a table showing the same Feb-Dec outcome depending on the performance of the preceding January and December. Trade counts are low, but show that the positive January Indicator is particularly strong when the preceding December was also up.

December	*January*	*All Trades*	*Winning Trades*	*Losing Trades*	*% Profitable*	*Profit Factor*
UP	**UP**	**25**	**22**	**3**	**88.00 %**	**14.95**
UP	DOWN	12	7	5	58.33 %	1.07
DOWN	UP	7	5	2	71.43 %	2.69
DOWN	DOWN	7	4	3	57.14 %	1.13

Summary

It certainly appears that the January Indicator is more than a mere statistical aberration. As we have seen, a strong January (ideally preceded by a strong December) has been followed fairly consistently by a positive 11 month period.

The problem is that the inverse is not true: a weak January has been a poor predictor for the performance of the year to come. This makes it difficult to integrate the January Indicator into an actionable trading plan. So at worst it should be interpreted anecdotally, particularly by short-term traders. At best it could be used as a position-size or directional filter (e.g. no long-term index shorts when January has been positive).