The January Effect, the January Barometer, and Other Wall Street Myths


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Every year Wall Street prognosticators polish off their rose-colored glasses by reviewing the "myths" that allegedly drive the stock market into the new year. And every year numerous studies have shown most of them to have little or no merit.

The January Effect

This is the myth that promotes the idea that January is a great month to be invested in stocks. The pitch is designed to appeal to new investors who have just received their year-end bonuses and are now drawn to the idea of dipping a toe into the stock market.

Don't do it.

It's true that between 1928 and 2000 the overall stock market gained nearly two percent for the month. That far outpaced the averages of the other months of the year.

But that was then. Starting in the year 2000, the stock market actually posted negative returns (-0.3 percent on average) through January 2023. In January 2024, the overall market rose just a little over one percent.

A top contributor to Investopedia, Preston Cherry, called the January Effect "a folktale," and a study by Investopedia proved it:

> Our own look back at the SPDR S&P 500 ETF (SPY) [which tracks the S&P 500, or Standard and Poor's 500] since its 1993 inception makes one wonder how the term ever came to be used. Of the 31 years since, there have been 18 winning January months (58%) and 13 losing January months (42%), making the odds of a gain slightly higher than the flip of a coin.
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> Further, from the start of the 2009 market rally through January 2024, January months showed eight positive vs. eight losing months…
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> While the January Effect remains an interesting historical phenomenon, it appears that its relevance in modern markets has waned, and investors are advised to consider other factors when making investment and trading decisions.

Burton Malkiel, the author of the classic finance book *A Random Walk Down Wall Street* (now in its 13th edition), repeats the joke that "the January effect is more likely to occur on the previous Thanksgiving."

The January Barometer

This reflects the popular mantra, "As goes January, so goes the year." Yale Hirsch, creator of the annual

Stock Trader's Almanac, first mentioned the anomaly in 1972. From 1950 until 1984 it held true, being correct three years out of every four. However, since 1985 the January Barometer has broken, providing no predictive value for the future of the market whatsoever.

The Super Bowl Indicator

This is the peculiar but remarkably accurate indicator that depends on which team wins the Super Bowl. If a team from the American Football Conference (AFC) wins, the stock market tends to move down for the year. Conversely, if the team from the National Football Conference (NFC) wins, the market tends to move higher the rest of the year.

As of January 2022, the predictor was correct in 41 out of 55 games, a winning percentage of 75 percent! Since 1978, it has been correct in 29 out of 43 games, a winning percentage of 67 percent.

The Presidential Election Cycle Theory

This theory posits that the stock market performs relatively poorly during the first two years of a presidential term, bounces back strongly in the third year, and continues to be strong into the fourth year.

This has been proven to be true. A Charles Schwab researcher, Lee Bohl, decided in 2016 to look into it and found that the third year of the presidential term consistently outperformed returns in the other years, by a factor of two!

In the Biden administration just ending, the theory worked. In Biden's first year in office, the S&P 500 Index gained 26 percent, followed by a drop of 18 percent in his second year. The third year (2023) showed gains of 24 percent, while the year just ended showed gains over 25 percent.

What Is the Best Indicator?

The best prediction of future performance is past performance. Put another way, high prices in the past will eventually decline back to their long-term average. Statisticians call it "reversion to the mean." To the average investor, it's known as "stocks cannot grow to the sky."

The difficulty is the timing.

Since 1930, after inflation is taken into account, the stock market has averaged just under seven percent growth every year. That means that the past two years' performance in stocks has exceeded that average by a factor of almost four! Translation: Stocks could take a serious hit during Donald Trump's first year of his second term.

If one factors in the Presidential Election Cycle Theory and the kooky Super Bowl Indicator (odds presently show the Kansas City Chiefs likely to beat whomever they play on Sunday, February 9), then investors should prepare for some significant volatility in the stock market for 2025.