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Third Party Research **January 31, 2019**

As Goes January…? Really?

eResearch Corporation is pleased to provide a weekly commentary, authored by Tom McClellan, entitled "The McClellan Chart-In-Focus", which is a free technical analysis article published each week.

In this article, Mr. McClellan shows that what happens in January is not a fail-safe prediction for the rest of the year.

The article is reproduced below, beginning on the next page, or you can use this link to go to the article directly: <Ctrl-Click> **HERE**

You can also visit the McClellan Financial Publications Home Page at the link below. This is a subscription service, and there are two publications which can be subscribed for: (1) **The McClellan Market Report**; and (2) **The Daily Edition**.

Here is the link to the Home Page: http://www.mcoscillator.com/

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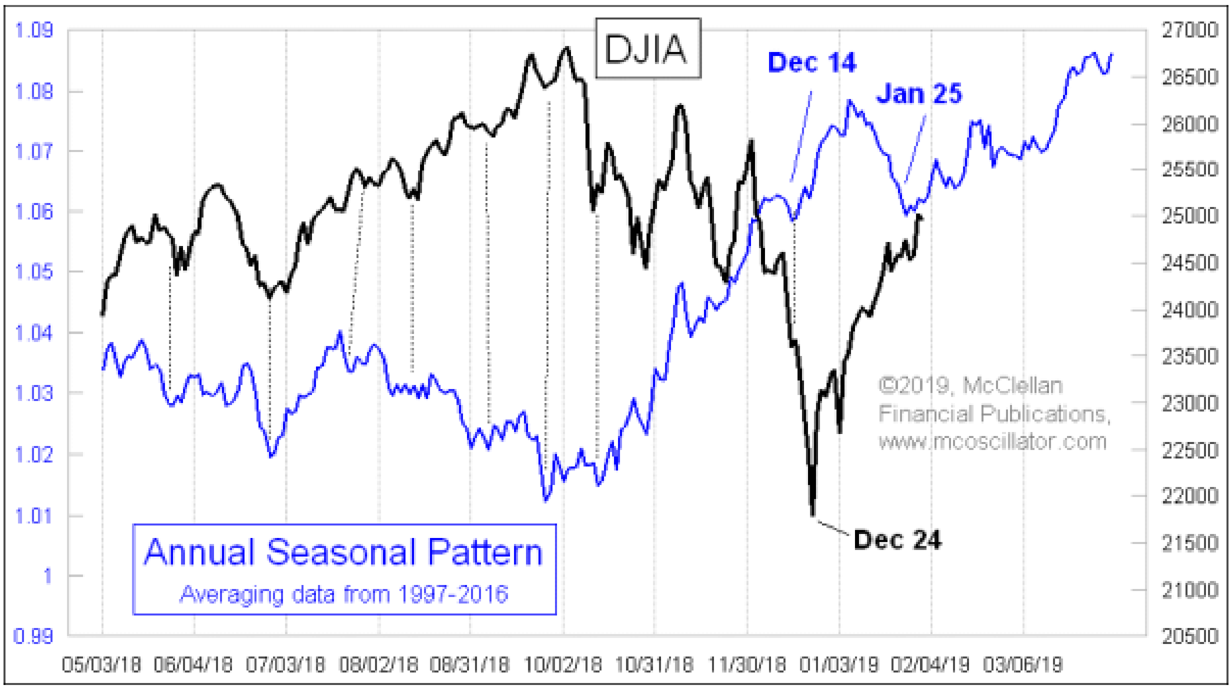
January 31, 2019

The McClellan Chart-In-Focus

by Tom McClellan (bio at end)

As Goes January…? Really?

The stock market's relationship to its normal seasonality has become wacky lately. October to December is supposed to be an up-period for stock prices and, instead, we saw a very sharp correction.



In recent years, January has typically seen a meaningful decline, but the stock market instead powered higher. In fact, the DJIA's 7.2% gain in January 2019 was the strongest January since 1989.

This makes for a good time to bring up the old idea of the "January Barometer", which is the belief that the stock market's behavior in the month of January is determinative of what it will do for the whole year. It is not to be confused with the "January Effect", which is the tendency for small-cap stocks to out-perform in January.

The January Barometer was made famous by Yale Hirsch, of the Stock Trader's Almanac. There is some legitimacy to its billing as a harbinger of what is coming. But there are also problems with that.

Using data since 1928, the January Barometer has correctly predicted the DJIA's return for the whole year 75.28% of the time. That sounds pretty good, until we realize that the DJIA has been up for the year 67% of the time over that period. So, one could have just guessed "up" and come pretty close to the track record of the January Barometer.

One other problem with the January Barometer is that when you are standing on January 31, and trying to figure out how to invest for the rest of the year, the water that has already flowed under the bridge is not much use to you. What you want is not something which is going to predict the whole year, but rather something that will help you with the rest of the year. And this is where the January Barometer comes up lacking.

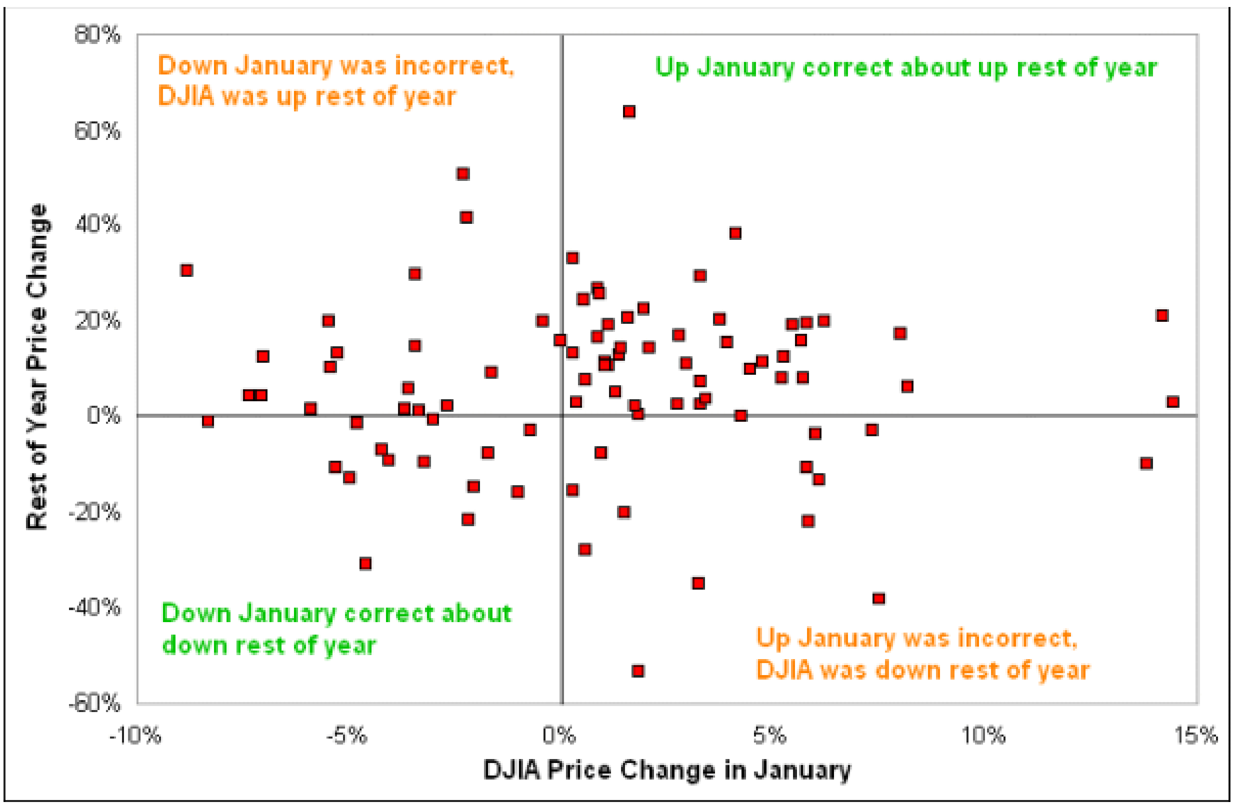
A great example was the year 1987. The DJIA was up 13.8% for the month of January 1987, and the DJIA finished the whole year of 1987 up 2.3% from the last day of 1986. So, the January Barometer was "right" about it being an up-year, even though the DJIA lost 10% from the end of January to the end of December 1987.

Here is a fuller depiction of its track record:

January Barometer? Index studied: DJIA	Did Jan Predict Year?	Did Jan Predict Rest Of Year?
Average 1928-1949:	63.64%	50.00%
Average 1950-1969:	80.00%	80.00%
Average 1970-2018:	77.55%	63.27%
Average 2000-2018:	74.73%	63.74%

We can see in the table above that the January Barometer had a pretty good run in the 1950s and 1960s but, since then, it has not worked so well. And it is especially not so good when we look at what January says about the rest of the year, i.e. the other 11 months.

Here is a look at January performance versus the rest of the year (after January) on a scatterplot chart:



If the January Barometer was correct all of the time, then we would see a uniform arrangement of the dots from lower left to upper right. Instead, we find a lot of dots in the upper left and lower right quadrants, meaning that the rest of the year did not match what January did.

Bottom line, it is great that we have seen such a nice rally off of the December 24, 2018 lows, and a nice strong January. But don't go counting your chickens about what that supposedly has to mean for the whole year.

See also David Keller's article on this topic at https://stockcharts.com/articles/mindfulinvestor/2019/01/defrosting-the-markets-thoughts-on-the-january-barometer.html

And Jay Kaeppel wrote about it too at https://jayonthemarkets.com/2019/01/30/what-you-need-to-know-about-the-january-barometer/

Tom McClellan, Editor,

The McClellan Market Report

BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* is provided on the following page.

ABOUT THE AUTHOR

Tom McClellan

Tom McClellan has done extensive analytical spreadsheet development for the stock and commodities markets, including the synthesizing of the four-year Presidential Cycle Pattern. He has fine-tuned the rules for inter-relationships between financial markets to provide leading indications for important market and economic data.

Tom is a graduate of the U.S. Military Academy at West Point, where he studied aerospace engineering, and he served as an Army helicopter pilot for 11 years. He began his own study of market technical analysis while still in the Army, and discovered ways to expand the use of certain indicators to forecast future market turning points.

Tom views the movements of prices in the financial market through the eyes of an engineer, which allows him to focus on what the data really say rather than interpreting events according to the same "conventional wisdom" used by other analysts.

In 1993, he left the Army to join his father in pursuing a new career doing this type of analysis. Tom and his Father spent the next two years refining their analysis techniques and laying groundwork.

In April 1995 they launched their newsletter, The McClellan Market Report, an 8-page report covering the stock, bond, and gold markets, which is published twice a month. They utilize the unique indicators they have developed to present their view of the market's structure as well as their forecasts for future trend direction and the timing of turning points.

A Daily Edition was added in February 1998 to give subscribers daily updates on their indicators and also provide market position indications for stocks, bonds, and gold. Their subscribers range from individual investors to professional fund managers. Tom serves as editor of both publications, and runs the newsletter business from its location in Lakewood, WA.

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