

With 2023 behind us, what does a stellar "Santa Claus" rally tell us about what to expect? What about this year being a Presidential election year? These questions make it an excellent time to review our "investor resolutions." However, before we commit to our resolutions, let's check what January may have in store.

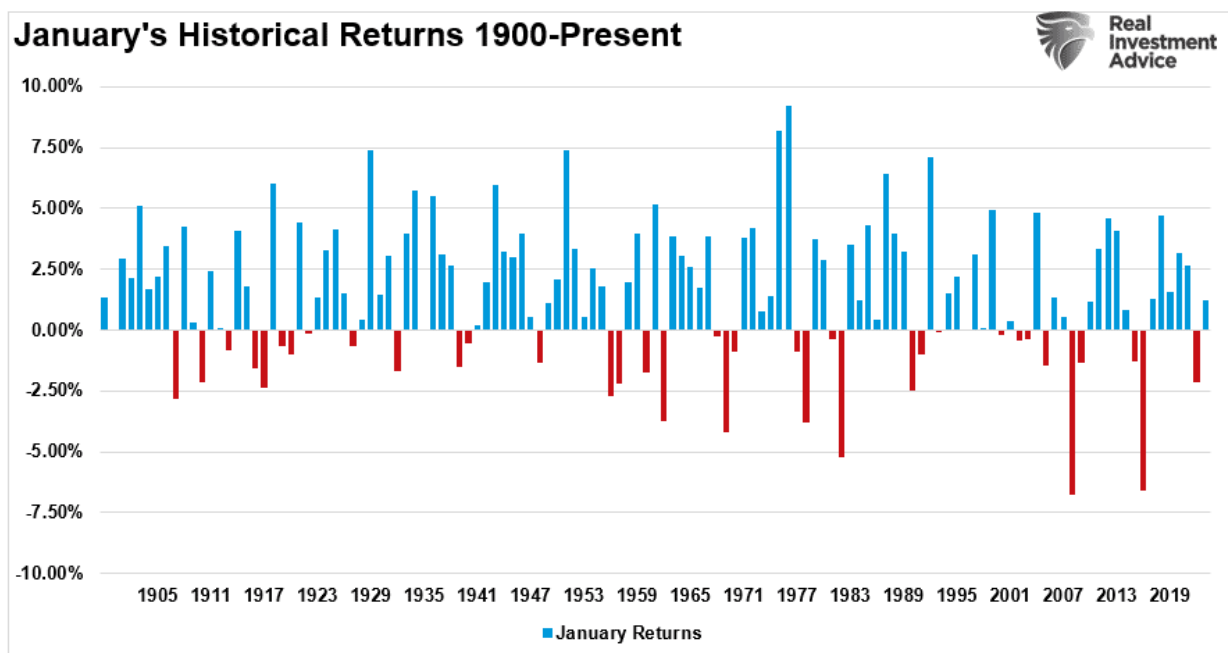
So Goes January

There is an abundance of "Wall Street Axioms" surrounding the first month of the New Year as investors anxiously try to predict what is in store for the next twelve months. You are likely familiar with the "Superbowl Indicator," "So Goes The First 5 Days," "So Goes The Month," and "So Goes The Month, So Goes The Year."

Considering that trying to predict the markets more than just a few days in advance is mostly an exercise in "folly," it is nonetheless a traditional ritual as the old year passes into the new. **While Wall Street consistently espouses overly optimistic projections of year-end returns, reality has often tended to be somewhat different.**

However, from an investment management perspective, we can look at some of the statistical evidence for January to gain insight into future performance tendencies. From this analysis, we can gain some respect for the risks that might lie ahead.

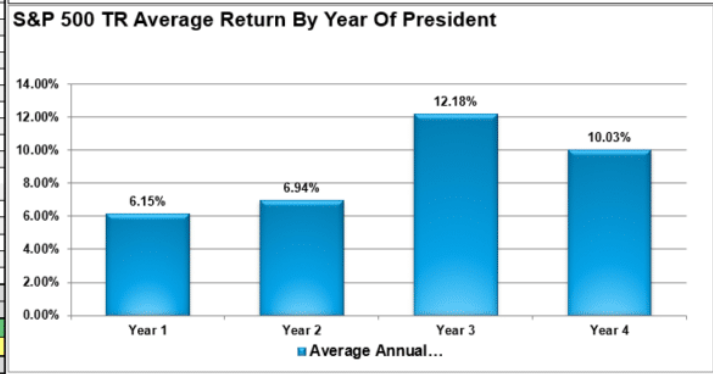
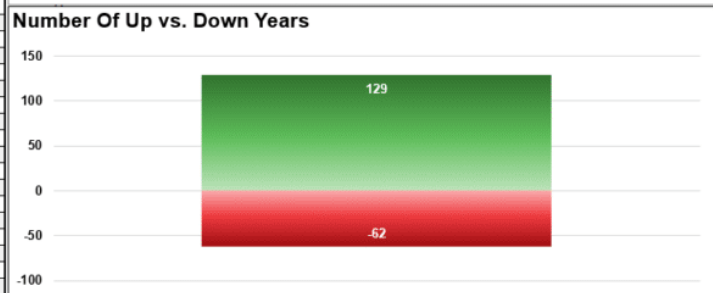
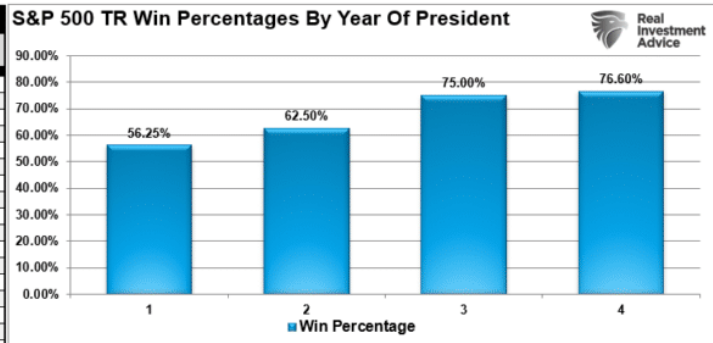
According to [StockTrader's Almanac](#), the direction of January's trading (*gain/loss for the month*) has predicted the course of the rest of the year 75% of the time. From a broad historical perspective, the chart below shows the January performance from 1900.



Furthermore, twelve of the last sixteen presidential election years followed January's direction. Speaking of presidential election years, 2023 was held to form with a strong return year, as has

been the norm over the last century. 2024, a Presidential election year, also has a high win rate with an average return of 10% and a 76% chance of success.

Presidential Election/Stock Market Cycle							
Beg. Of 4-Yr Cycle	Elected President	Pres. Party	Post Election Year	Mid-Term Year	Pre-Election Year	Election Year	
1833	Jackson	Dem	(0.90)	13.00	3.10	(11.70)	
1837	Van Buren	Dem	(11.50)	1.60	(12.30)	5.50	
1841	WH Harrison	Whig	(13.30)	(18.10)	45.00	15.50	
1845	Polk	Dem	8.10	(14.50)	1.20	(3.60)	
1849	Taylor	Whig	0.00	18.70	(3.20)	19.60	
1853	Pierce	Dem	(12.70)	(30.20)	1.50	4.40	
1857	Buchanan	Dem	(31.00)	14.30	(10.70)	14.00	
1861	Lincoln	Rep	(1.80)	55.40	38.00	6.40	
1863	Lincoln	Rep	(8.50)	3.60	1.60	10.80	
1869	Grant	Rep	1.70	5.60	15.26	7.84	
1873	Grant	Rep	2.97	8.60	11.40	(16.51)	
1877	Hayes	Rep	20.24	30.46	20.34	31.60	
1881	Garfield	Rep	(6.29)	8.47	5.15	(5.36)	
1885	Cleveland	Dem	31.29	9.42	(3.65)	7.17	
1889	B. Harrison	Rep	9.43	(7.73)	26.11	(2.03)	
1893	Cleveland	Dem	(3.90)	4.61	4.51	0.15	
1897	McKinley	Rep	17.63	29.20	(12.37)	22.84	
1901	McKinley	Rep	11.90	(2.40)	(13.05)	35.17	
1905	T. Roosevelt	Rep	15.86	(3.23)	(18.58)	37.79	
1909	Taft	Rep	8.85	7.02	(0.77)	1.39	
1913	Wilson	Dem	(3.64)	(8.96)	27.28	(2.83)	
1917	Wilson	Dem	(26.39)	(2.83)	(0.56)	(4.28)	
1921	Harding	Rep	19.99	26.45	(2.23)	25.18	
1925	Coolidge	Rep	19.41	13.48	34.75	43.81	
1929	Hoover	Rep	(8.30)	(25.12)	(43.84)	(8.64)	
1933	F. Roosevelt	Dem	49.98	(1.19)	46.74	31.94	
1937	F. Roosevelt	Dem	(35.34)	29.28	(1.10)	(10.67)	
1941	F. Roosevelt	Dem	(12.77)	19.17	25.06	19.03	
1945	F. Roosevelt	Dem	35.82	(8.43)	5.20	5.70	
1949	Truman	Dem	18.30	30.81	23.68	18.15	
1953	Eisenhower	Rep	(1.21)	52.56	32.60	7.44	
1957	Eisenhower	Rep	(10.46)	43.72	12.06	0.34	
1961	Kennedy	Dem	26.64	(8.81)	22.61	16.42	
1965	Johnson	Dem	12.40	(9.97)	23.80	10.81	
1969	Nixon	Rep	(8.24)	3.56	14.22	18.76	
1973	Nixon	Rep	(14.31)	(25.90)	37.00	23.83	
1977	Carter	Dem	(6.98)	6.51	18.52	31.74	
1981	Reagan	Rep	(4.70)	20.42	22.34	6.15	
1985	Reagan	Rep	31.24	18.49	5.81	16.54	
1989	G.H.W. Bush	Rep	31.48	(3.06)	30.23	7.49	
1993	Clinton	Dem	9.97	1.33	37.20	22.68	
1997	Clinton	Dem	33.10	28.34	20.89	(9.03)	
2001	G.W. Bush	Rep	(11.85)	(21.97)	28.36	10.74	
2005	G.W. Bush	Rep	4.83	15.61	5.48	(36.55)	
2009	Obama	Dem	25.94	14.82	2.10	15.89	
2013	Obama	Dem	32.15	13.52	1.38	11.77	
2017	Trump	Rep	21.61	(4.23)	31.22	18.01	
2021	Biden	Dem	28.47	(18.11)	25.46		
2025							
2029							
2033							
STATS			Total % Gain	295.22%	333.31%	584.81%	471.37%
			Average Annual Return	6.15%	6.94%	12.18%	10.03%
			Number Up	27	30	36	36
			Number Down	21	18	12	11
			Win Percentage	56.25%	62.50%	75.00%	76.60%



Real Investment Advice

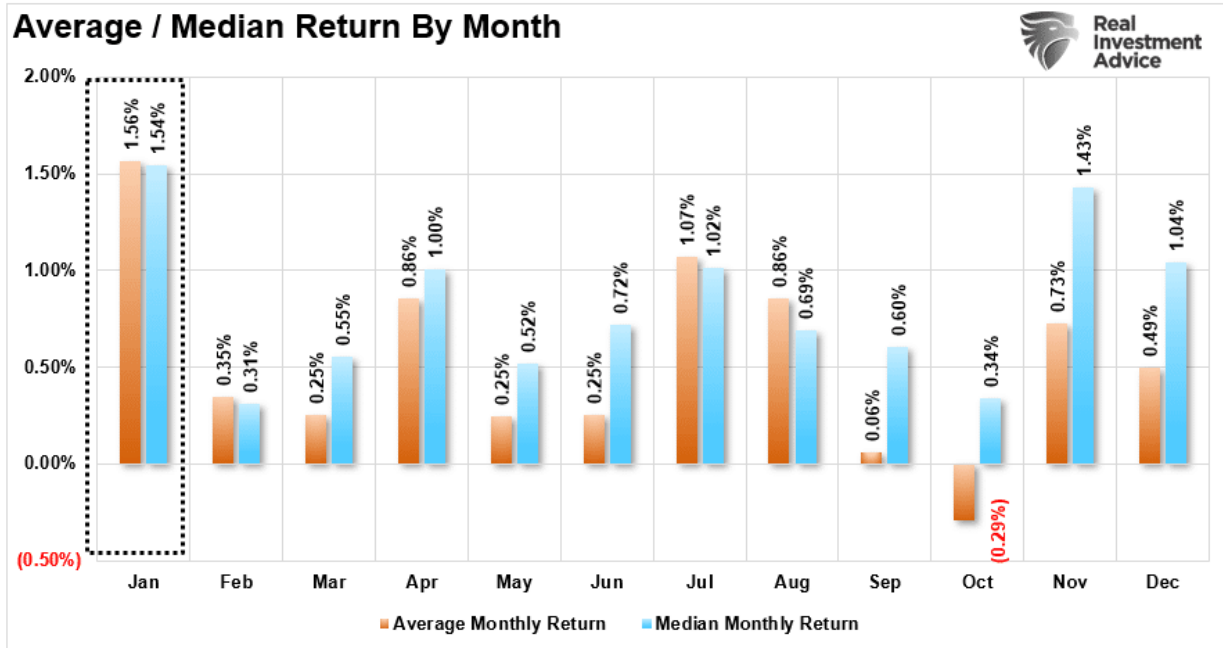
Navigating Markets in a Presidential Cycle
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Digging In

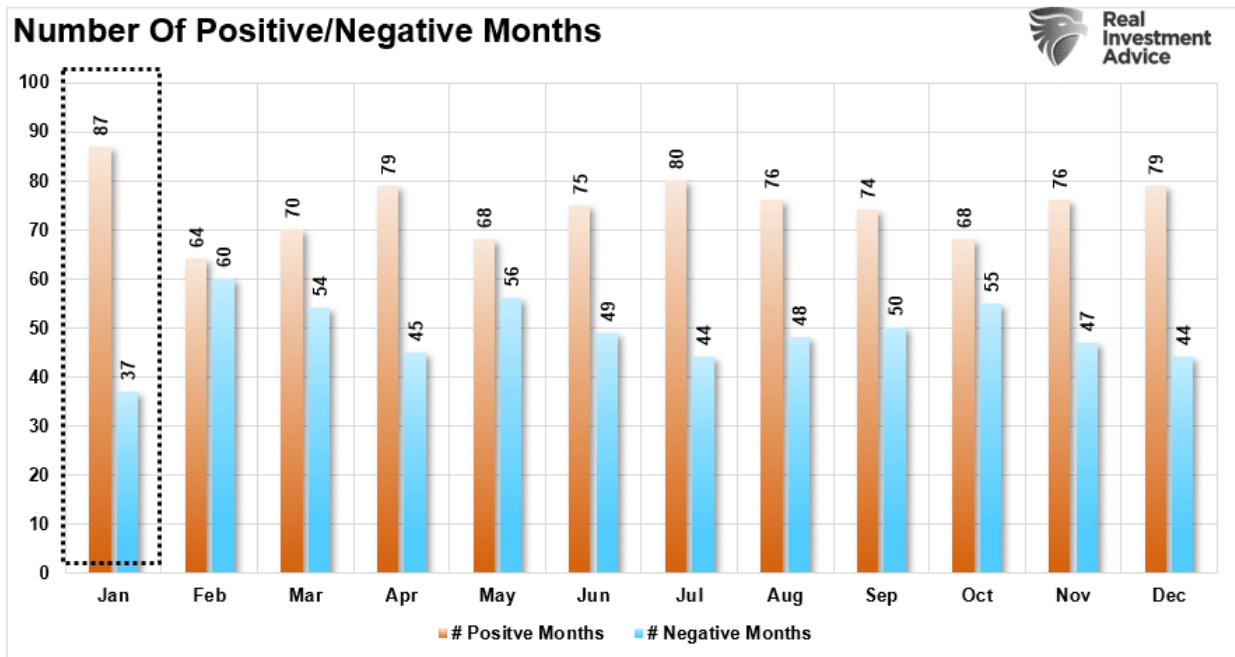
The table and chart below show the monthly statistics for the S&P 500. As you will notice, there are some significant outliers, like August, with a 50% one-month return. These anomalies occurred during the 1930s following the crash of 1929.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Average Monthly Return	1.56%	0.35%	0.25%	0.86%	0.25%	0.25%	1.07%	0.86%	0.06%	(0.29%)	0.73%	0.49%
Median Monthly Return	1.54%	0.31%	0.55%	1.00%	0.52%	0.72%	1.02%	0.69%	0.60%	0.34%	1.43%	1.04%
# Positive Months	87	64	70	79	68	75	80	76	74	68	76	79
# Negative Months	37	60	54	45	56	49	44	48	50	55	47	44
Max Positive Month	9.20%	11.30%	7.04%	12.02%	28.74%	17.14%	19.88%	50.30%	11.58%	11.15%	10.84%	6.89%
Max Negative Month	(6.79%)	(11.85%)	(19.07%)	(23.97%)	(13.77%)	(13.43%)	(11.67%)	(10.56%)	(14.89%)	(20.39%)	(26.47%)	(18.77%)

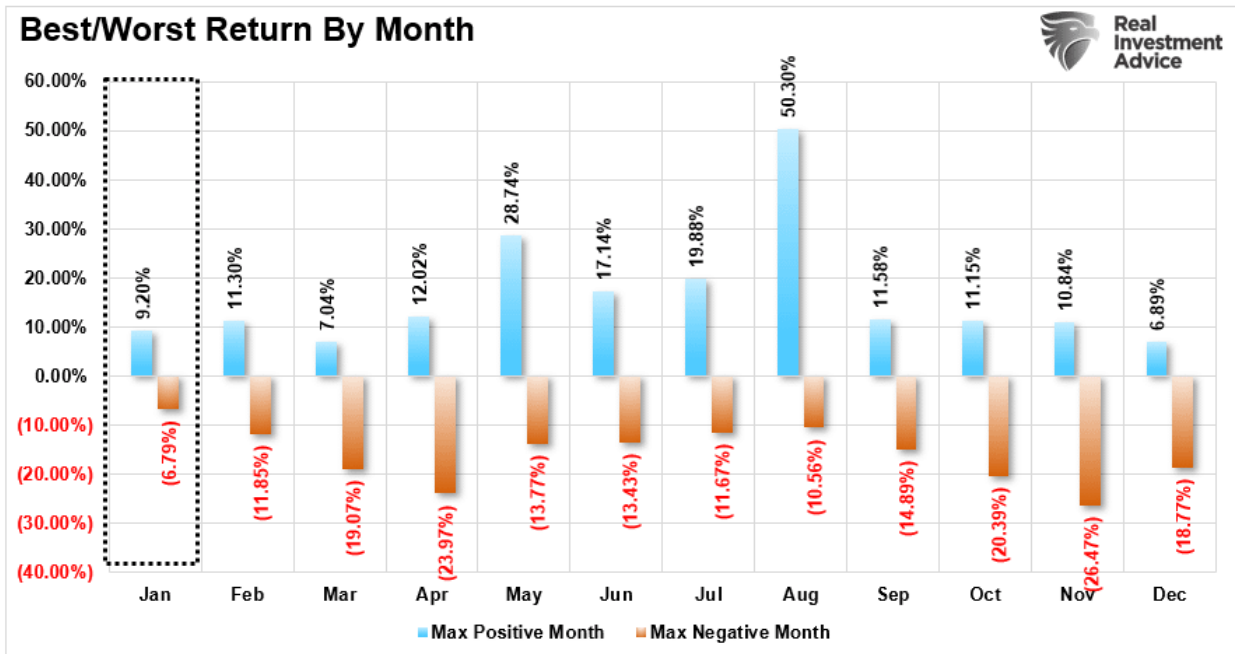
The critical point is that January tends to be one of the best return months of the year, while February and March are significantly weaker.



January is the most favorable return month, followed only by December, April, and July.



But January is not always a winner. While the statistical odds are high, particularly after a strong start, it does not always end that way. **It is worth noting that while January's maximum positive return was 9.2%, the maximum drawdown was the mildest at -6.79%.**



Following a huge "Santa Rally" during December, we will be watching January closely for clues we may glean heading into 2024. It is not unrealistic to expect a weaker January to play out with stock grossly extended and overbought from December.

However, such is why "investor resolutions" will play an essential role over the next 12 months. Importantly, it is not the market that investors need to combat but their own "psychology."

Why We Continue To Repeat Our Mistakes

Every year, Dalbar Research publishes an extensive study that repeatedly shows three primary reasons for investor failure.



The key issues are a lack of capital to invest and psychology. Dalbar defined nine of the irrational investment behavioral biases specifically:

- **Loss Aversion ?** The fear of loss leads to a withdrawal of capital at the worst possible time. Also known as "panic selling."
- **Narrow Framing ?** Making decisions about one part of the portfolio without considering the effects on the total.
- **Anchoring ?** The process of remaining focused on what happened previously and not adapting to a changing market.
- **Mental Accounting ?** Separating the performance of investments mentally to justify success and failure.
- **Lack of Diversification ?** Believing a portfolio is diversified when it is actually a highly correlated pool of assets.
- **Herding ?** Following what everyone else is doing. Such leads to "buy high/sell low."
- **Regret ?** Not performing a necessary action due to the regret of a previous failure.
- **Media Response ?** The media is biased toward optimism to sell products from advertisers and attract views/readership.
- **Optimism ?** Overly optimistic assumptions tend to lead to rather dramatic reversions when met with reality.

The "herding effect" and "loss aversion" are the most significant behaviors that compound the issues of investor mistakes over time. As markets rise, individuals believe the current price trend will continue indefinitely. **The longer the rising trend lasts, the more ingrained the belief becomes. Eventually, the last of the "holdouts" finally "buy in" as the market evolves into a "euphoric state."**

The cycle then repeats itself.



While 2023 was bullish, investor allocations to equities remain elevated, and optimism is high heading into 2024. Given that investors' behavioral traits run counter-intuitive to the "buy low/sell high" investment rule, such suggests the risk of disappointment is elevated.

Such is why it is vital to follow a set of resolutions.

Investor Resolutions For 2023

Each year, I review my annual resolutions for the coming year to be a better investor and portfolio manager:

I will:

- **Do more of what is working and less of what isn't.**
- *Remember that the "Trend Is My Friend."*
- **Be either bullish or bearish, but not "hoggish." (Hogs get slaughtered)**
- *Remember, it is "Okay" to pay taxes.*
- *Maximize profits by staging my buys, working my orders, and getting the best price.*
- **Look to buy damaged opportunities, not damaged investments.**
- *Diversify to control my risk.*
- **Control my risk by always having pre-determined sell levels and stop-losses.**
- *Do my homework. I will do my homework. I will do my homework.*
- *Not allow panic to influence my buy/sell decisions.*
- **Remember that "cash" is for winners.**
- *Expect, but not fear, corrections.*
- **Expect to be wrong, and I will correct errors quickly.**
- *Check "hope" at the door.*
- **Be flexible.**
- *Have the patience to allow my discipline and strategy to work.*
- **Turn off the television, put down the newspaper, and focus on my analysis.**

Each year, I do my best to adhere to my resolutions. Sometimes, I fail.

However, such is the practice of reviewing these guides to reset my focus for the New Year. There is no easy road to being a successful investor. **But following a set of basic rules, maintaining discipline, and having focus can significantly increase the odds of long-term success.**

Conclusion

While most financial media and blogosphere suggest that investors should only "*buy and hold*" for the long term, the reality of capital destruction during significant market declines is a far more pernicious issue.

With market valuations elevated, leverage high, and economic weakness present; investors should be observing the month of January for clues. The weight of evidence suggests that this could be a year of disappointment despite ongoing "bullish calls" for the markets in the year ahead.

Pay attention. And adhere to your resolutions.

May you have a Happy and Prosperous 2023.

See You Next Week.