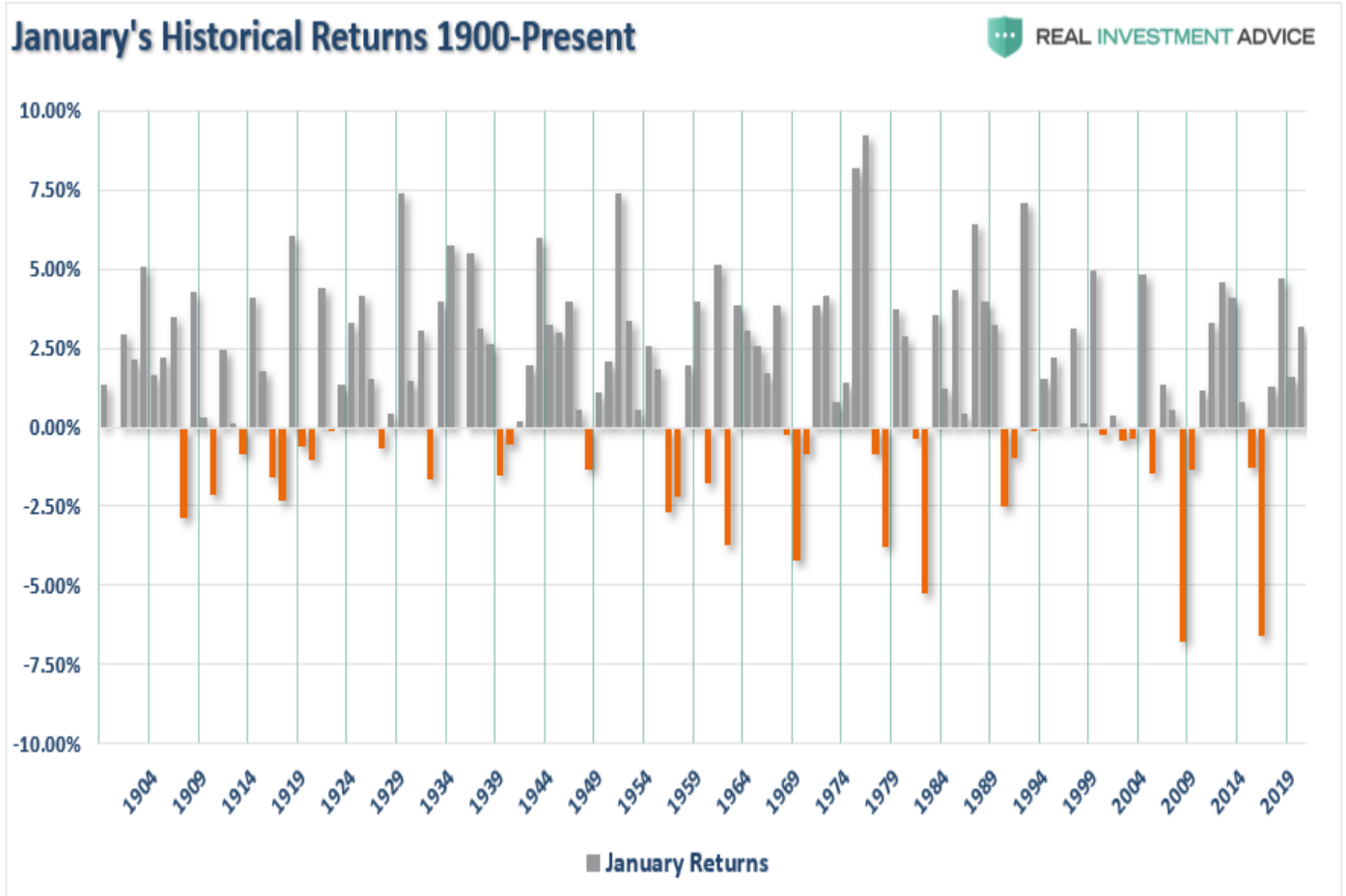


Technically Speaking: 2021 Investor Resolutions & January Stats

With 2021 already off to a good start, with the market up almost 2% in January, such is an excellent time to review our "investor resolutions."

So Goes January

There is an abundance of "Wall Street Axioms" surrounding the first month of the New Year as investors anxiously try and predict what is in store for the next twelve months. You are likely familiar with the "Superbowl Indicator" to "So Goes The First 5-days. So Goes The Month." 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 espouses their always 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 performance tendencies looking ahead. From this analysis, we can potentially gain some respect for the risks that might lay 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.** Starting from a broad historical perspective, the chart below shows the January performance going back to 1900.



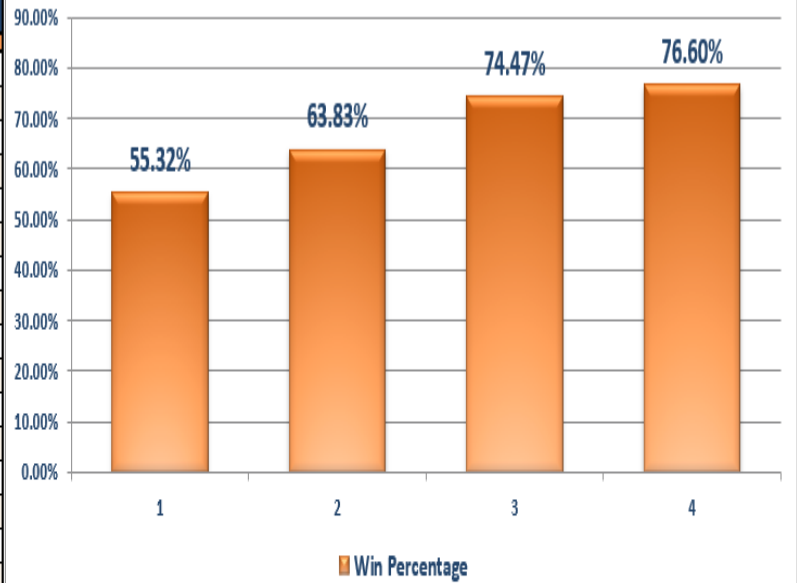
Furthermore, twelve of the last sixteen presidential election years followed January's direction.

Speaking of Presidential election years, the first year of a new President statistically has the lowest average return rate with roughly a coin toss of being a positive year.

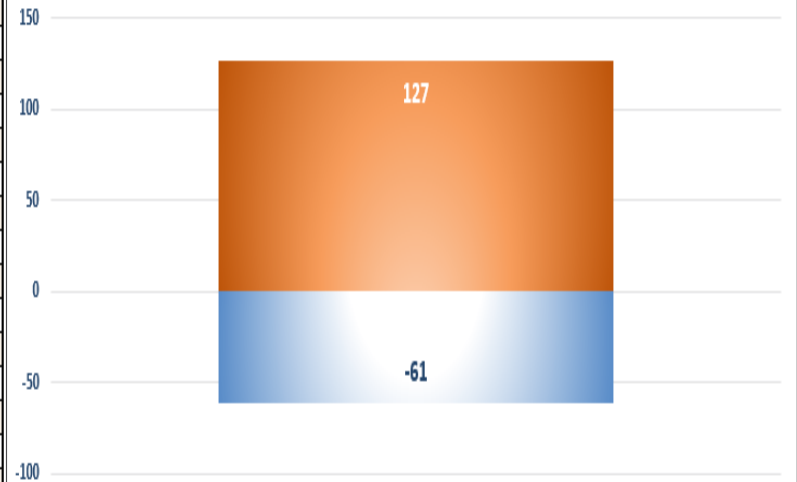
Presidential Election/Stock Market Cycle

4-Yr Cycle	Beg. Of Elected President	Pres. Post Election Party	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				
2025						
2029						
2033						

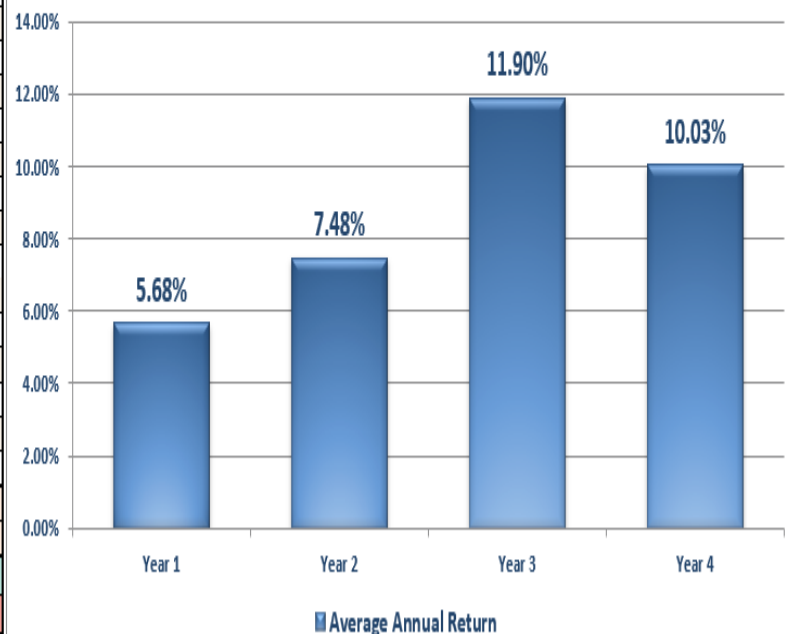
S&P 500 TR Win Percentages By Year Of President



Number Of Up vs. Down Years



S&P 500 TR Average Annual Return By Year Of President



STATS

Total % Gain	266.75%	351.42%	559.35%	471.37%
Average Annual Return	5.68%	7.48%	11.90%	10.03%
Number Up	26	30	35	36
Number Down	21	17	12	11
Win Percentage	55.32%	63.83%	74.47%	76.60%

Digging In

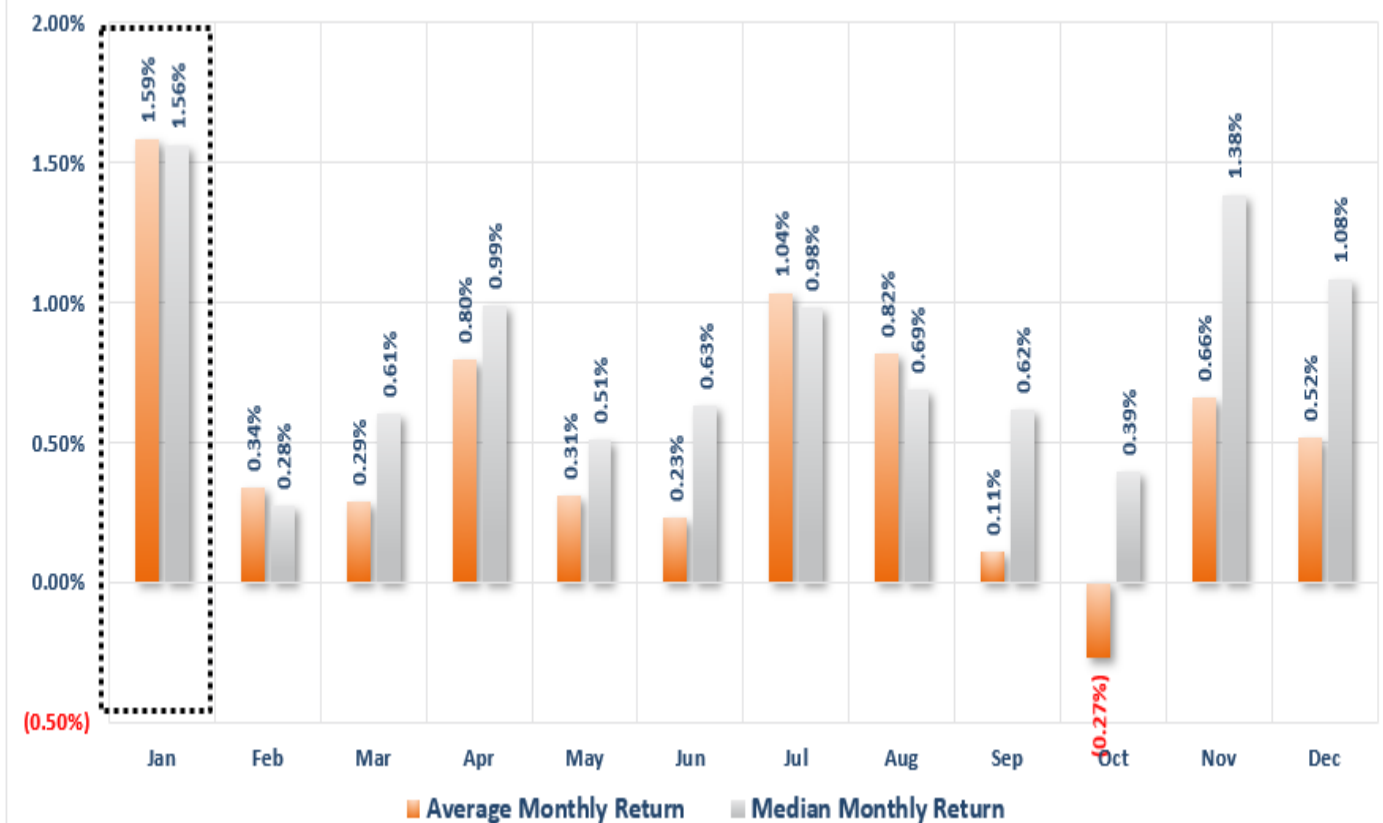
The table and chart below show the statistics by month for the S&P 500. As you will notice, there are some significant outliers like August with a 50% one-month return. These anomalies occurred during the 1930s following the crash of 1929.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Average Monthly Return	1.59%	0.34%	0.29%	0.80%	0.31%	0.23%	1.04%	0.82%	0.11%	(0.27%)	0.66%	0.52%
Median Monthly Return	1.56%	0.28%	0.61%	0.99%	0.51%	0.63%	0.98%	0.69%	0.62%	0.39%	1.38%	1.08%
# Positive Months	85	62	69	76	66	73	77	74	73	67	74	78
# Negative Months	36	59	52	45	55	48	44	47	48	54	47	43
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. Interestingly, the first week of January has already surpassed the historical average and median monthly returns.

Average / Median Return By Month

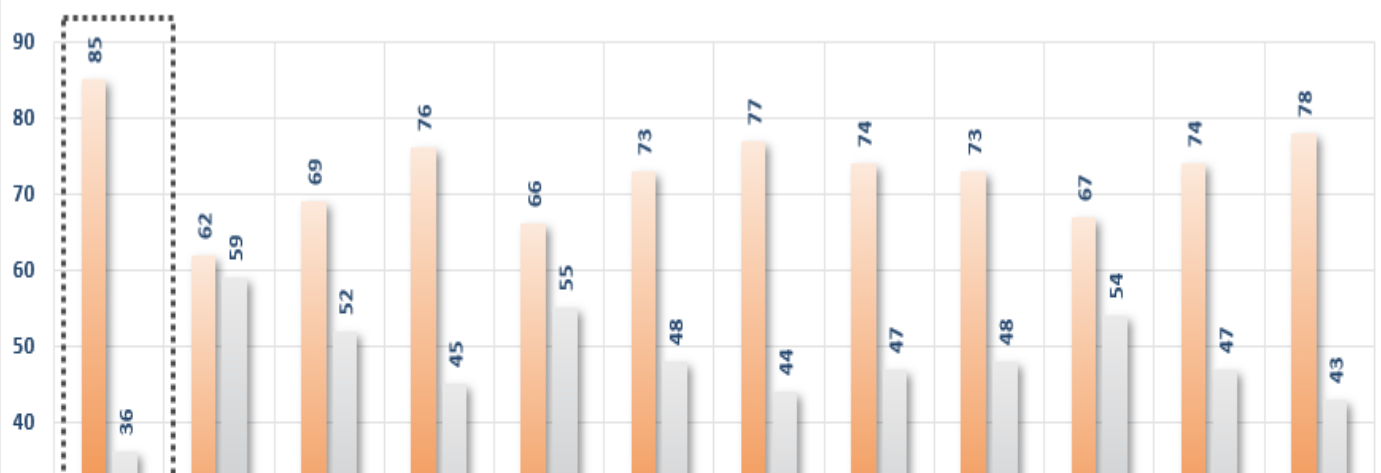
REAL INVESTMENT ADVICE



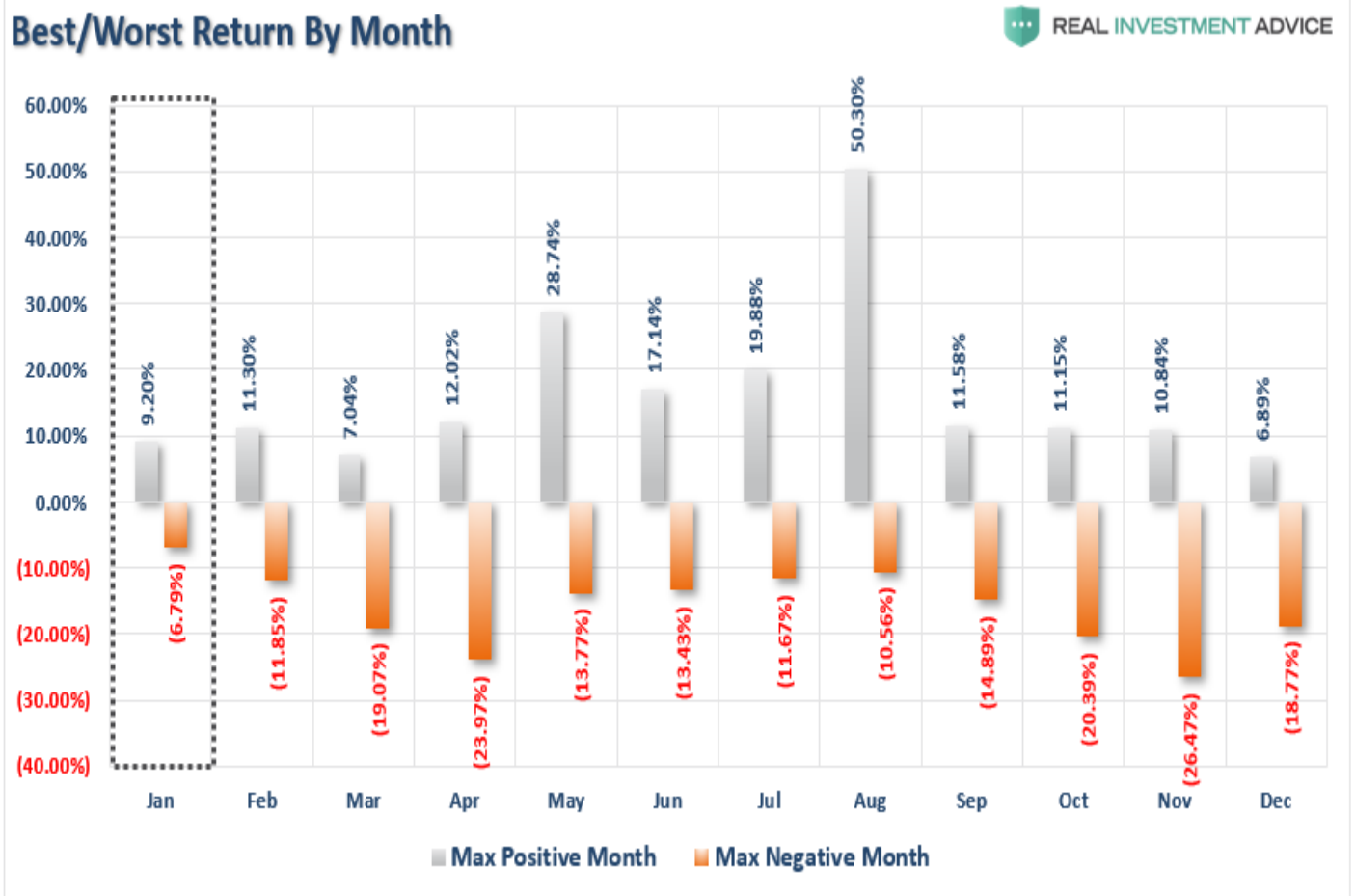
January also holds the title for the most favorable return months, followed only by December and April.

Number Of Positive/Negative Months

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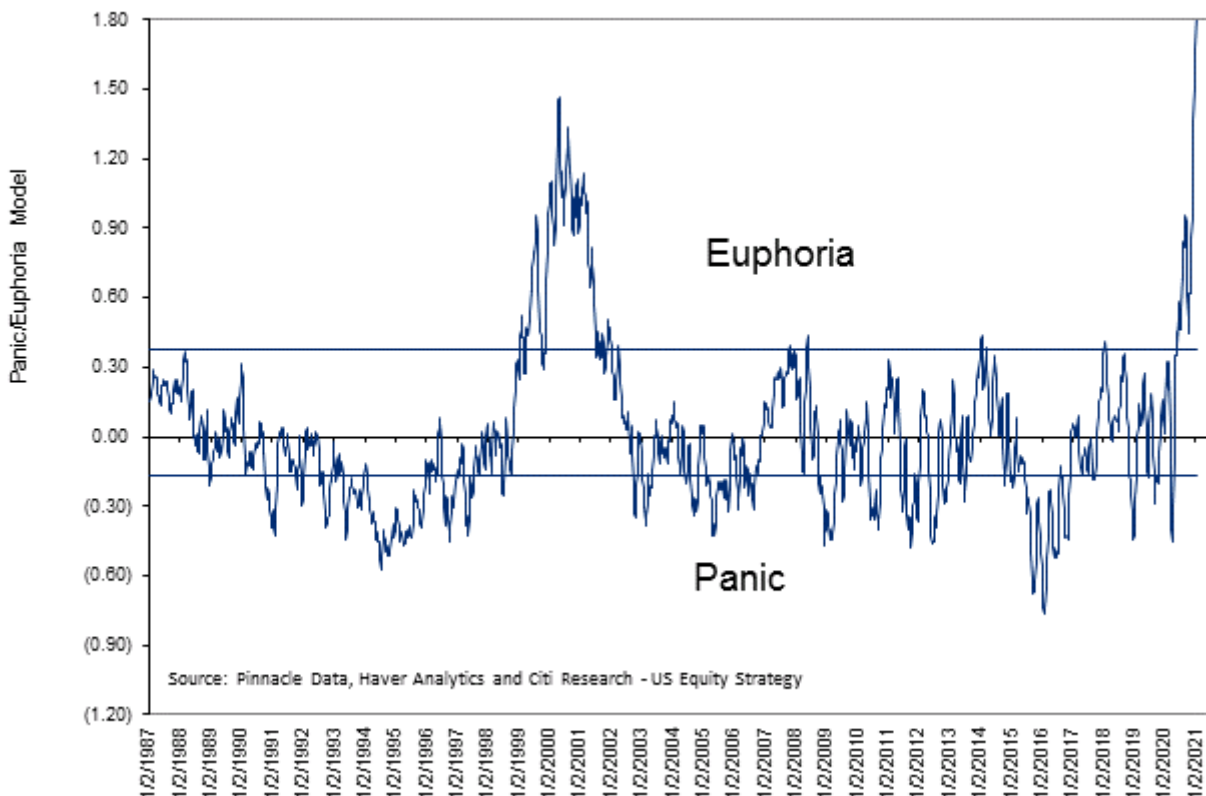


But January is not always a winner. While the statistical odds are high, particularly after a strong start, it does not always end that way. **It is worth noting that while January's maximum positive return 9.2%, the maximum drawdown for the month was the lowest for all months at -6.79%.**



An Overly Excited Beginning

While I don't directly make asset allocation decisions based on monthly returns from a portfolio

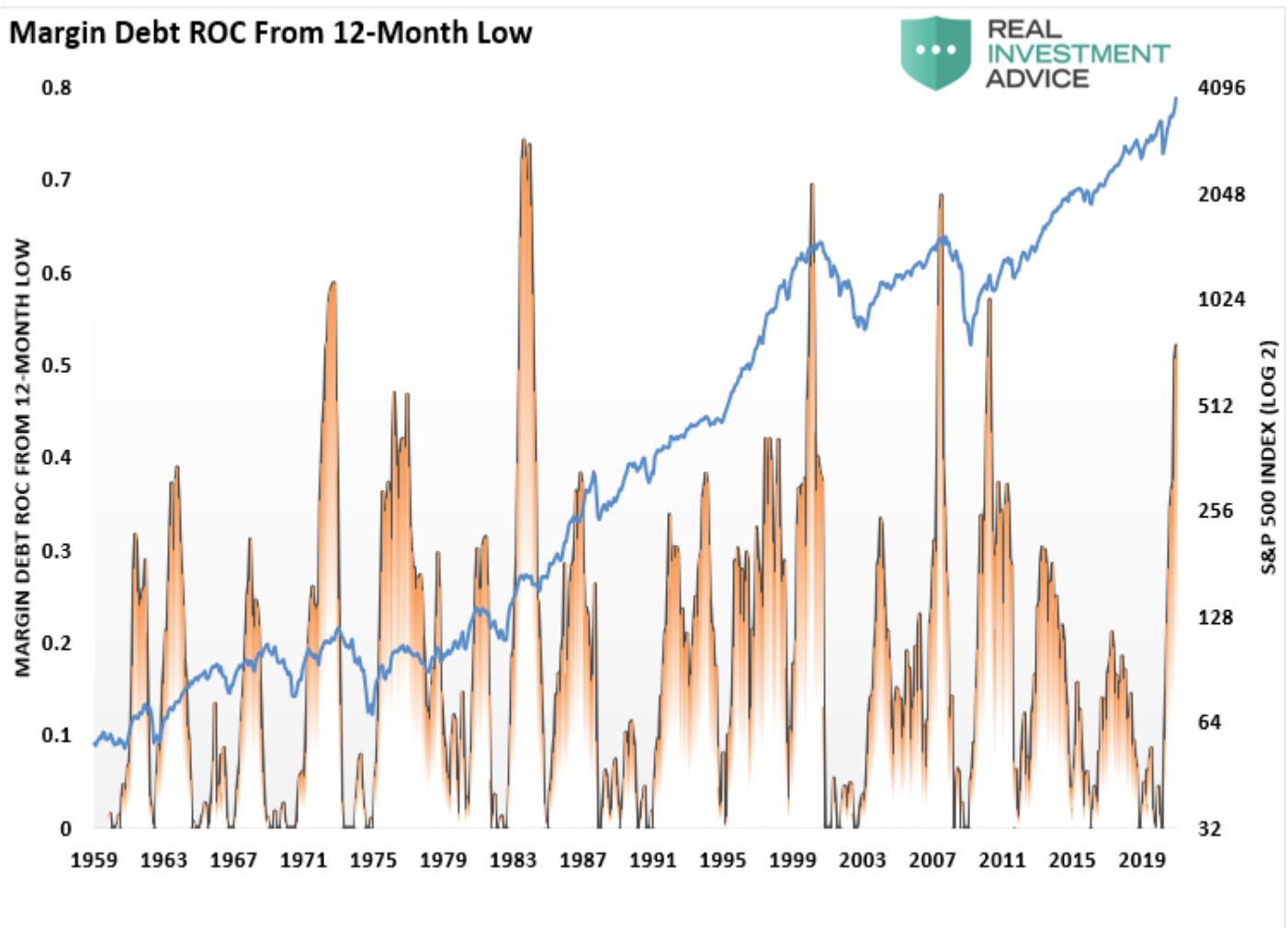


worth
it being
month

February

is potentially a different animal with only 50/50 odds of being positive. So, with investors overly allocated to equities, leveraged, and unhedged, the potential for a negative catalyst to spark a reversion is high. Speaking of leverage, whenever margin debt has spiked sharply from its 12-month low, such has usually been associated with short- to intermediate-term market peaks.

Margin Debt ROC From 12-Month Low



Importantly, given the length of the [uninterrupted bull market run](#) from 2009 to the present, **the risks are mounting the current bull market cycle has entered into the "mania" phase.** Such fundamental realities suggest a more conservative approach to investment allocations.

The Battle Of Wits

"Wait, so you are saying January tends to be a good month, but it could correct."

Yes. The dichotomy reminds me of the scene from *"The Princess Bride"* where the "Sicilian" is in a "Battle Of Wits" with "The Dread Pirate Roberts." While it may seem confusing for investors, it comes down to time frames.

For short-term traders, the odds are high that January will post a positive trading month, therefore, allocations should remain tilted towards equity related exposure. If you are a nimble trader and can adjust for the swings in the market, the "odds are in your favor." **For longer-term investors,** particularly those that are nearing retirement, risks are mounting for at least a short-term correction. Such potential outcomes suggest a more cautious approach to equity allocations in portfolios.

No one knows about "mania driven markets" is how long the mania will last. It is often the case that they tend to last longer than you would logically expect. Such is why it is vital to have a set of guides to follow. As we kick off the New Year, it is an excellent time to set out our "investing resolutions" for the year.

Investor Resolutions For 2021

Here are 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.**

These are the same resolutions I attempt to follow every year. There is no shortcut to being a successful investor. **There are only the basic rules, discipline, and focus that is required to succeed long-term.**

A Year Of Challenges

At the moment, every analyst is wildly optimistic about the new year. Expectations are high for explosive economic growth, more stimulus, debt-driven infrastructure spending, and 4100-4500 on the S&P by year-end. Maybe that will be the case. However, investors have priced the market for perfection with high valuations, low interest-rates, and low inflation. Any shortfall in earnings growth, economic recovery, or a rise in interest rates or inflation could have an immediate and negative impact on investors. The biggest problem for investors is the bull market itself. **When the "bull is running," we believe we are smarter and better than we actually are.** We take on substantially more risk than we realize as we continue to chase market returns and allow "greed" to displace our rational logic. **Just as with gambling, success breeds overconfidence as the rising tide disguises our investment mistakes.** Unfortunately, during the subsequent completion of the full-market cycle, our errors return to haunt us. **Always too painfully and tragically as the loss of capital exceeds our capability to "hold on for the long-term."**

Conclusion

While most of the financial media and blogosphere suggest that investors should only "buy and hold" for the long-term, the reality of capital destruction during major market declines is a far more pernicious issue. With market valuations elevated, leverage high, economic weakness pervasive and profit margins deteriorating, investors should be watching the month of January carefully for clues. The weight of evidence suggests that despite ongoing "bullish calls" for the markets in the year ahead, this could be a year of disappointment. Pay attention. Things may start to get interesting.