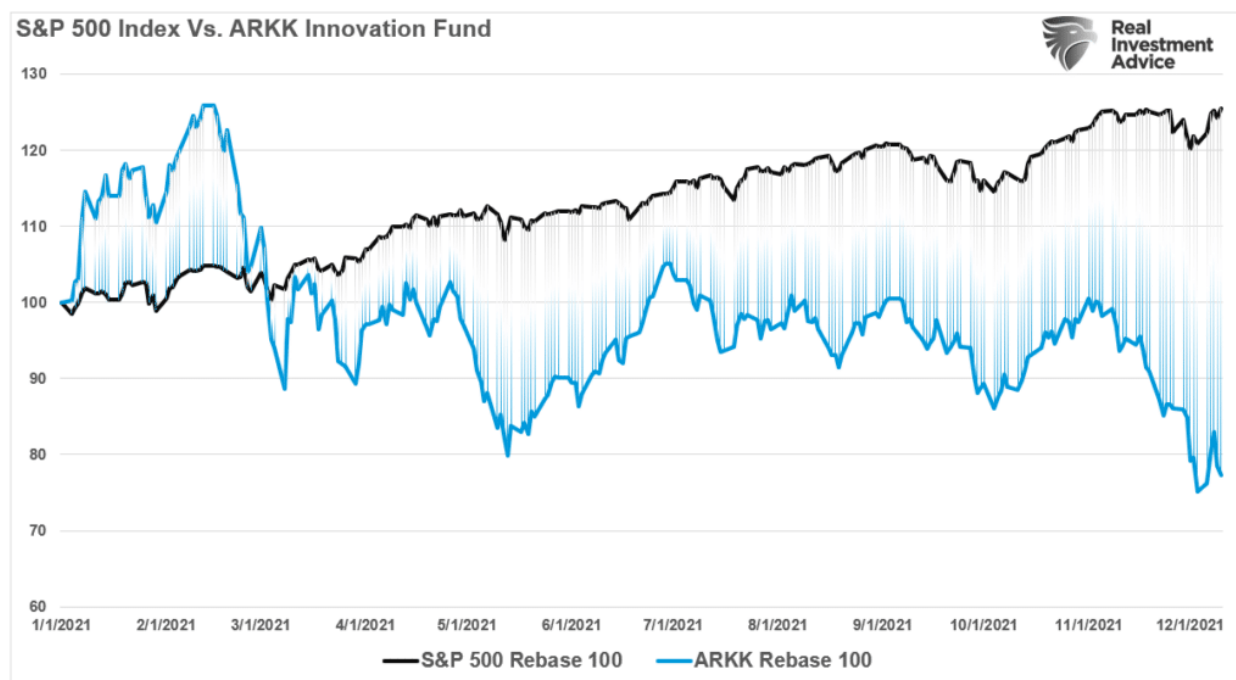


The market selloff into January rattled investors as concerns of "So Goes January, So Goes The Year" began to dampen expectations. Combined with a more aggressive stance from the Federal Reserve, rising inflation, and a reduction in liquidity, investor concerns seem to be well-founded.

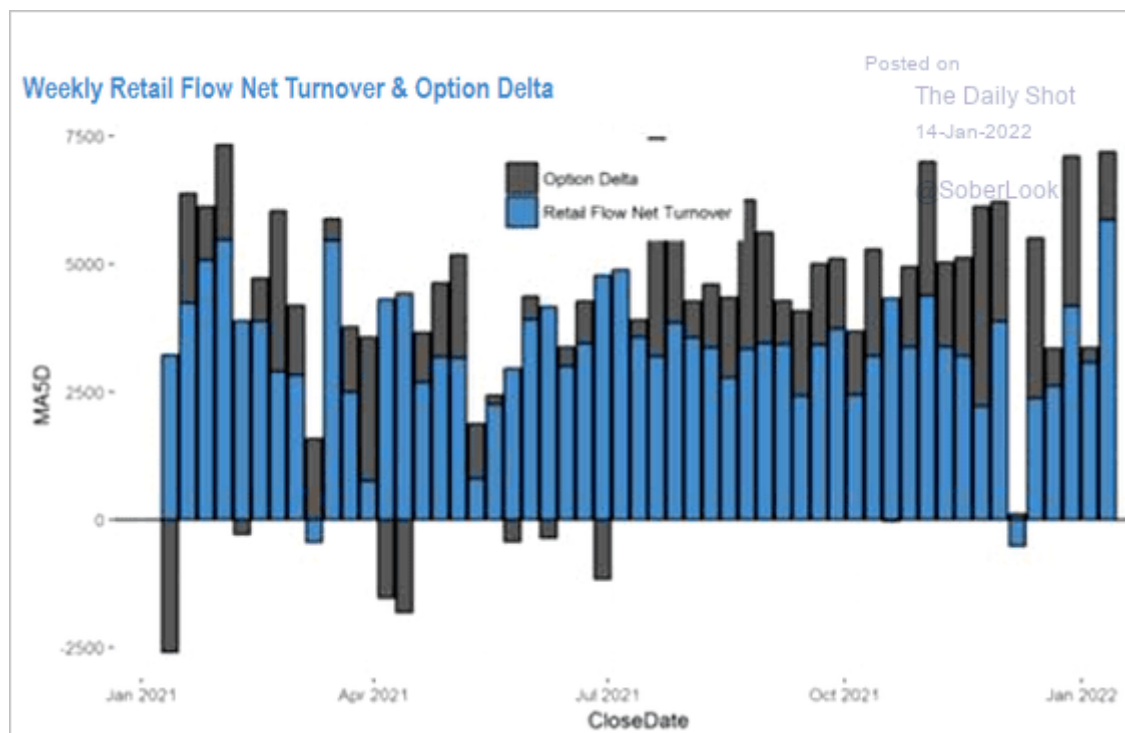
As discussed last week in ["Passive ETFs Are Hiding A Bear Market,"](#) the "blood bath" in the high-beta stocks is particularly humbling for the retail crowd that piled into risk with reckless abandon last year.

"Probably one of the best representations of the disparity between what you see 'above' and 'below' the surface is the ARKK Innovation Fund (ARKK). While the S&P 500 index was up roughly 27% in 2021, ARKK is down more than 20%. That is quite a performance differential but shows the disparity between the mega-cap companies and everyone else."



During the market selloff in the first two weeks of January, things did not improve for that group of stocks. **However, retail traders have now set their sights on a new target: "value stocks."**

*"Retail investors have been plowing a great deal of money into the markets in recent days. But remarkably, in addition to the broad index ETFs, **they've been buying value sector ETFs (according to JP Morgan Research)**. So this rotation is not limited to institutions." - The Daily Shot*

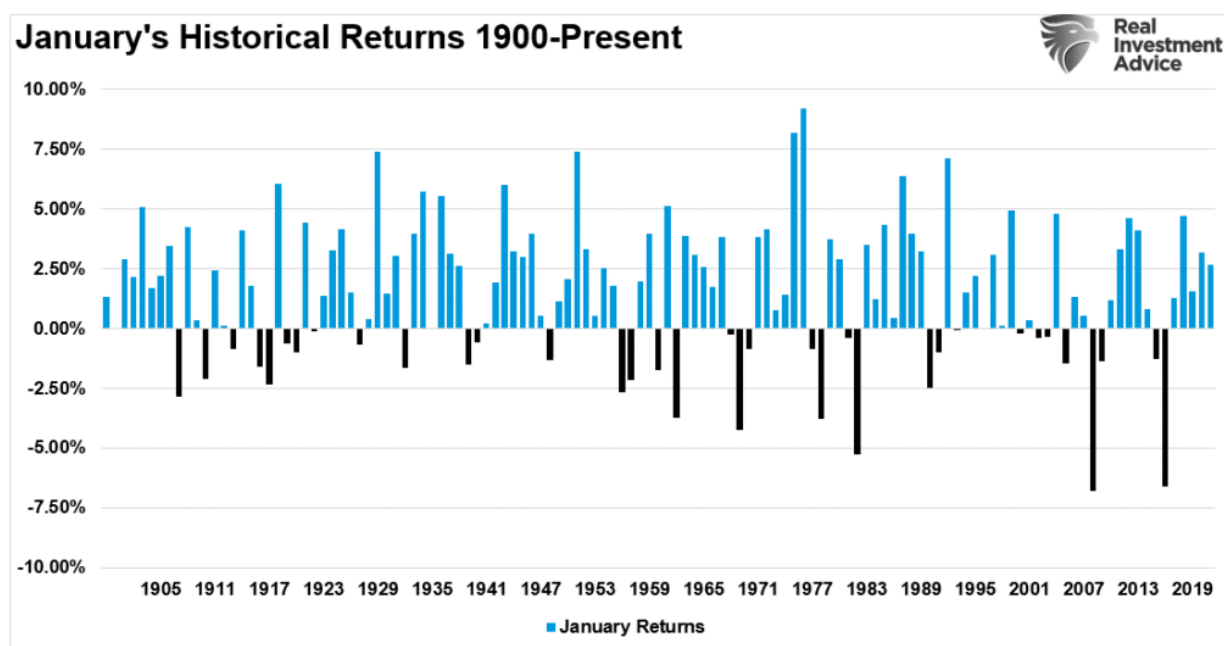


Despite the market selloff to start to the New Year, Wall Street continues to push overly optimistic projections of year-end returns. **But, as noted, reality will likely be something entirely different.**

So Goes January

For now, let's set aside assumptions of year-end outcomes and focus on the statistical evidence. From this analysis, we can potentially respect the risks that might lay ahead.

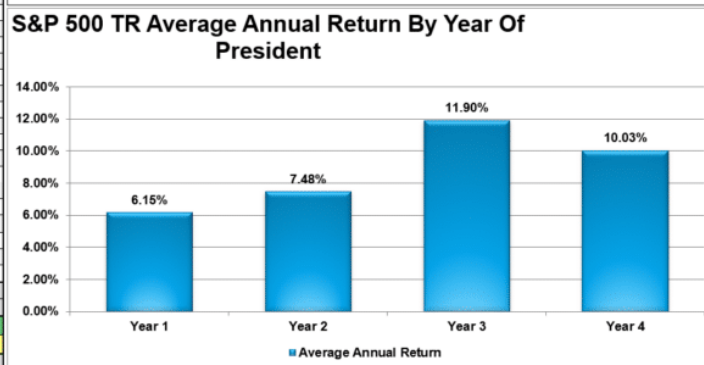
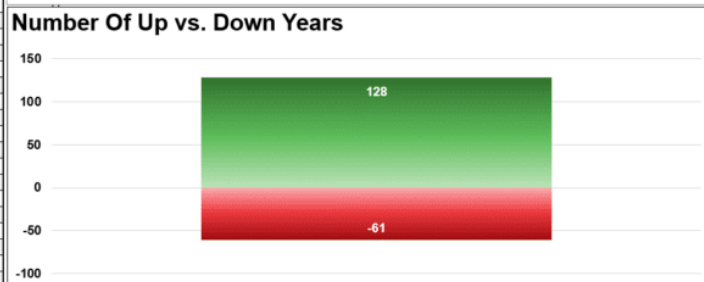
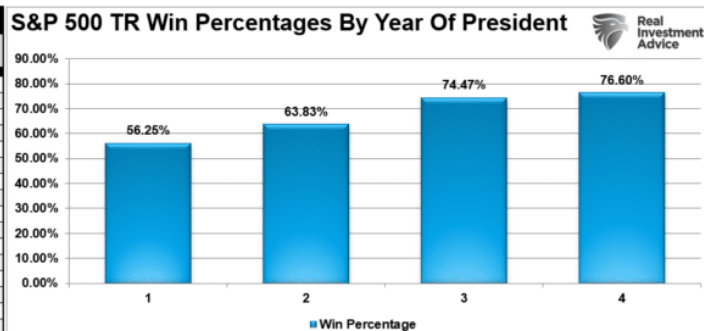
According to [StockTrader's Almanac](#), **the direction of January's trading (gain/loss for the month) has predicted the course of the rest of the year 75% of the time.** Starting from a broad historical perspective, the chart below shows the January performance from 1900.



Furthermore, thirteen of the last seventeen presidential election years followed January's direction. Speaking of Presidential election years, the second year of the Presidential cycle statistically has


the second-lowest average return rate with roughly a 63% chance of being a positive year.

Presidential Election/Stock Market Cycle						
Beg. Of 4-Yr Cycle	Elected President	Pres. Post Party	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			
2025						
2029						
2033						
STATS	Total % Gain		295.22%	351.42%	559.35%	471.37%
	Average Annual Return		6.15%	7.48%	11.90%	10.03%
	Number Up		27	30	35	36
	Number Down		21	17	12	11
	Win Percentage		56.25%	63.83%	74.47%	76.60%



Of course, unlike most years since 1980, this year, stocks will be dealing with the highest inflation rate since the late 1970s, excessively high valuations, and an aggressive policy change by the Fed.

While that doesn't necessarily mean poor outcomes for investors, it certainly increases the risk.



Need a plan to protect your hard earned savings from the next bear market?

> Schedule your consultation today

Digging In

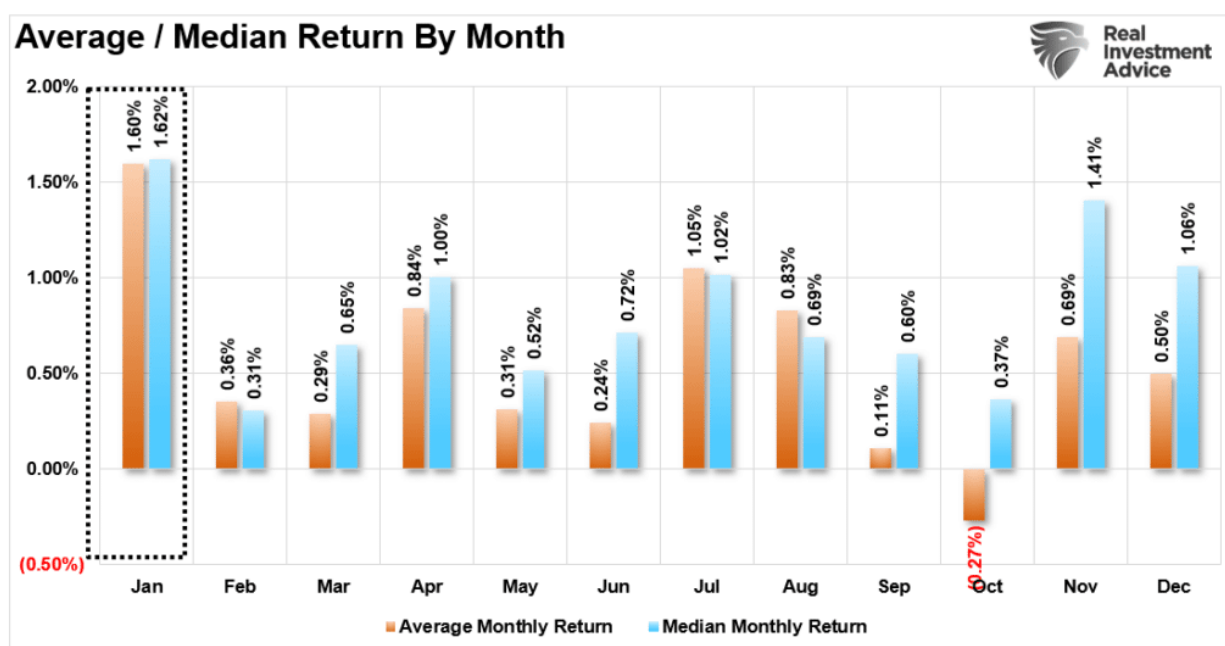
The table and chart below show the statistics by month for the S&P 500. As you will notice, there are some significant outliers like August with a 50% one-month return. These anomalies occurred during the 1930s following the crash of 1929.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Average Monthly Return	1.60%	0.36%	0.29%	0.84%	0.31%	0.24%	1.05%	0.83%	0.11%	(0.27%)	0.69%	0.50%
Median Monthly Return	1.62%	0.31%	0.65%	1.00%	0.52%	0.72%	1.02%	0.69%	0.60%	0.37%	1.41%	1.06%
# Positive Months	86	63	70	77	67	74	78	75	73	68	75	79
# Negative Months	36	59	52	45	55	48	44	47	49	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%)

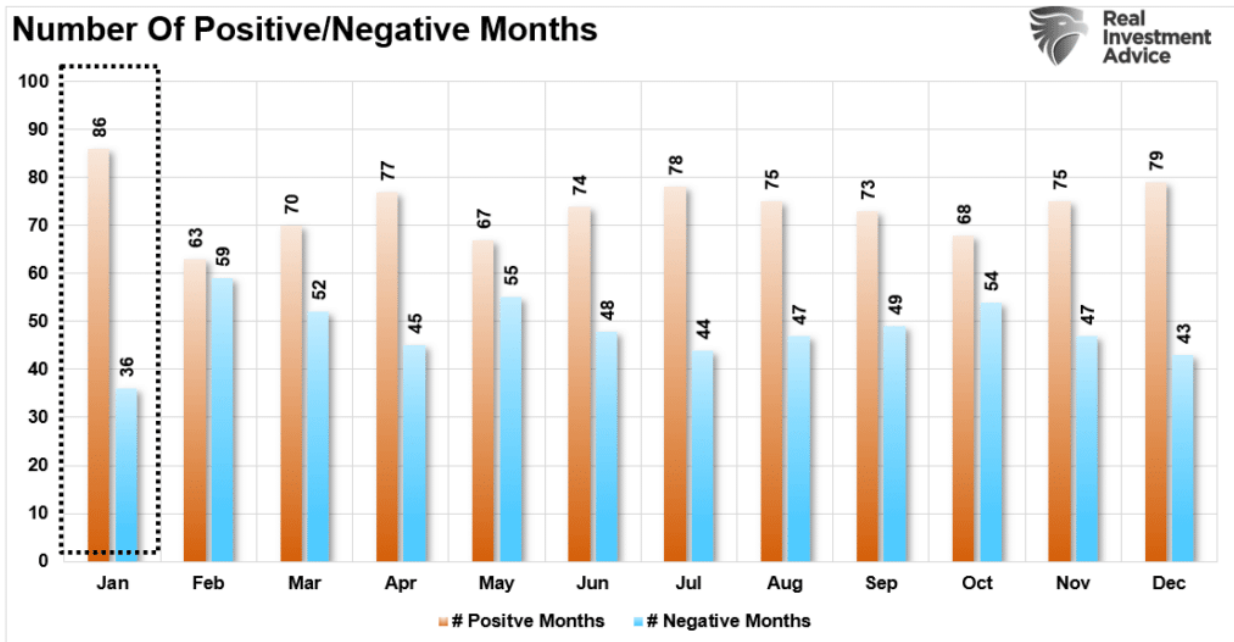
The critical point is that January tends to be one of the best return months of the year. January also sees the most inflows into equities as asset managers put cash to work. Last week, Net flows into global equity funds remained strong (+\$30bn vs +\$26bn in the prior week).

	Global Fund Flows Summary			
	Millions USD		% AUM	
	4wk sum	12-Jan	4wk avg	12-Jan
Equity	55,726	30,451	0.08	0.17
Fixed Income	16,469	-2,941	0.05	-0.04
of which: EM	-495	-435	-0.02	-0.07
Money Markets	23,293	-43,508	0.09	-0.64
FX Flows *	46,499	21,980	0.11	0.21

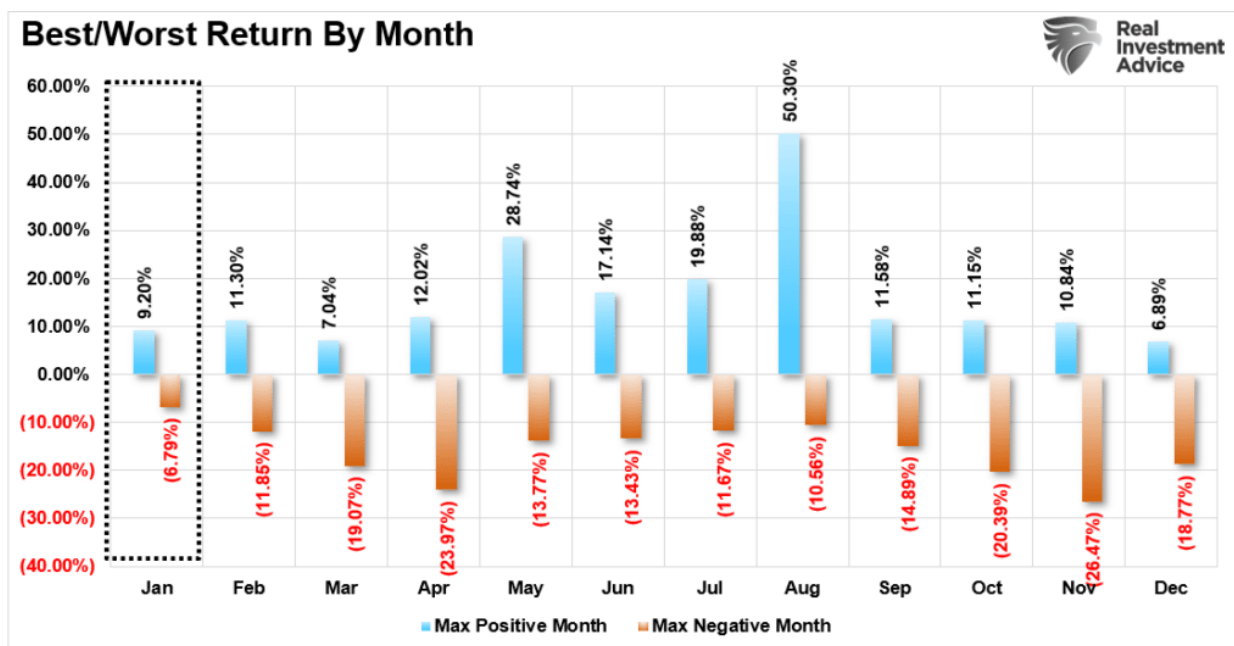
However, while fund inflows remain positive, January is significantly underperforming the long-term median and average, so far.



While January also holds the title for the most favorable return months since 1900, followed only by December and April, negative returns occur about 33% of the time. Such is a high enough risk not to get ignored.



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



However, that is history. Let's talk about where we are now.

Real Investment Report

Market updates, sector analysis, 401k plan manager & more.

[> Subscribe today](#)

A Rough Start

As noted, it has been a rough start to the new year so far as the market selloff caught investors off-guard. As shown below, **the market failed to hold December's gains**, negating most of the "Santa Claus" rally. **However, on Friday, the market successfully tested and maintained the lower trend line from last October.**



[SimpleVisor.com](https://www.SimpleVisor.com)

Risk is still prevalent. With sell-signals still intact, and the market not back to short-term oversold levels, there is still downside pressure on stocks.

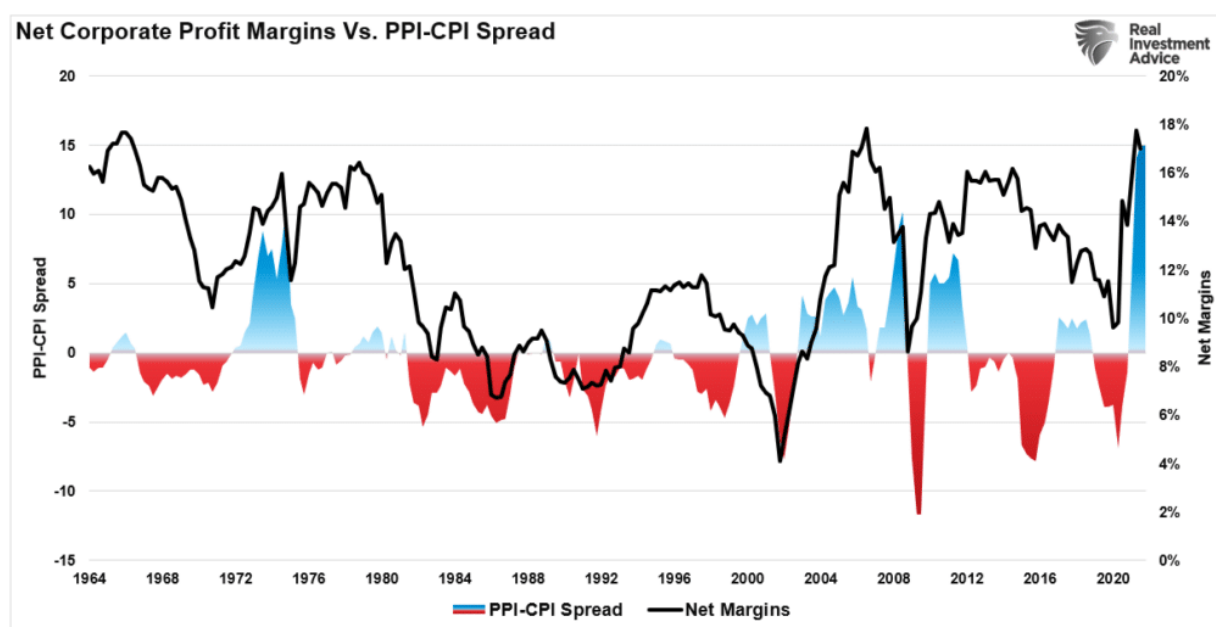


As shown, the current correction has already retraced 38.2% of the rally following the October correction. A full correction would wipe out all of the gains since December by completing a 61.8% retracement. While not shown, the 200-dma currently resides around 4400 on the S&P index, which would encompass roughly a 10% correction from the peak.

With earnings season kicking into gear this week, it would not be surprising for the market to hold current support, given that earnings should be reasonably robust. In addition, given we are looking at earnings for the 4th quarter of 2021, where there was still substantial liquidity in the system and the Fed was still highly accommodative. However, as we get into the later quarters of 2022, the support for earnings will fade considerably.

As noted in this [past weekend's newsletter](#):

"As shown, the massive spread between input and consumer prices suggests corporations cannot pass along inflation entirely. Such means we could see a contraction in profit margins in the quarters ahead."



RIA Pro

Set up your own portfolio today and start getting actionable intelligence.

[> Sign up now](#)

A Year Of Challenges

From the mainstream media's view, expectations are high that 2022 will continue 2021. Maybe such will be the case. However, [as we laid out just recently](#), many of the headwinds that supported the ramp in speculative behaviors have, or will, reverse in the months ahead. To wit:

- Tighter monetary policy, and high valuations.
- Less liquidity globally as Central Banks slow accommodation.
- Less liquidity in the economy the previous monetary injections fade.
- Higher inflation reduces consumption
- Weaker economic growth

- Weak consumer confidence due to inflation
- Flattening yield curve
- Weaker earnings growth
- Profit margin compression
- Weaker year-over-year comparisons of most economic data.

The media is correct that "Fed rate hikes" won't cause a bear market.

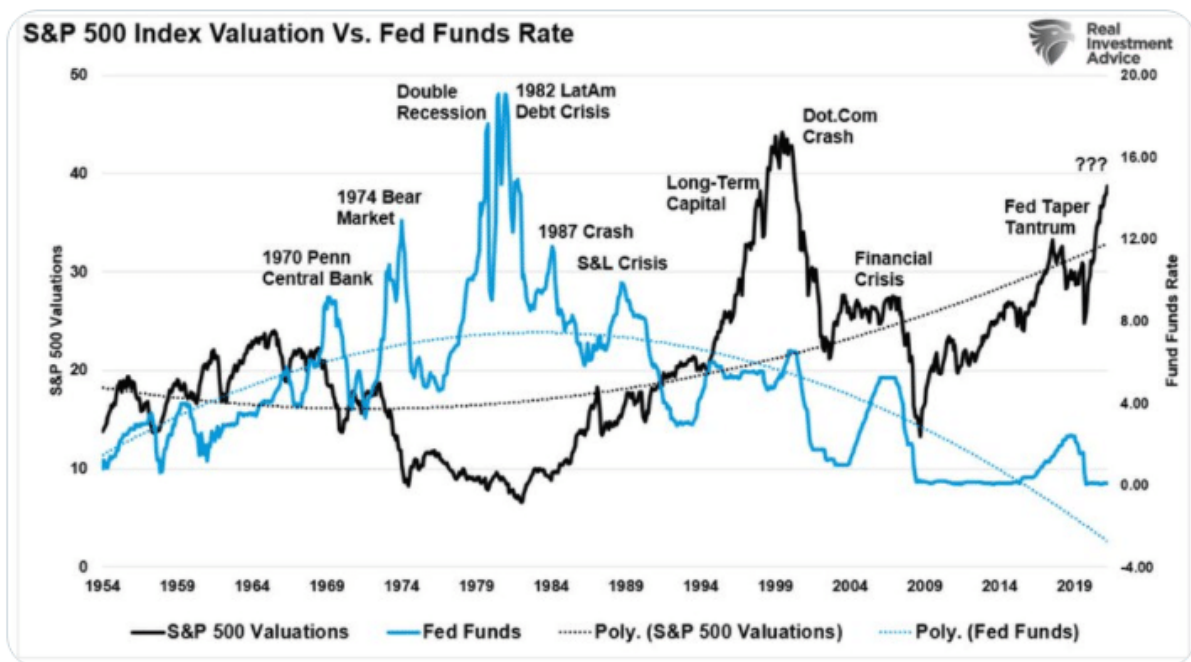
As is always the case, the event that changes the "[bullish psychology](#)" is always unknown. However, the eventual market reversion is almost always a function of changes in liquidity and a contraction in earnings. Such was a point I made Friday on Twitter:



Lance Roberts
@LanceRoberts

...

Since 1960, with [#valuations](#) over 20x earnings, the Fed started a long-term rate-hiking campaign that resulted in 3-bear [#markets](#), 2-recessions, and a debt crisis. The following 3x outcomes ranged from [#bear](#) markets to some credit crisis needing bailouts. realinvestmentadvice.com/dont-fight-the...



8:39 AM · Jan 14, 2022 · Twitter Web App

The biggest problem for investors is the bull market itself.

When the "bull is running," we believe we are more intelligent than we are. As a result, we take on substantially more risk than we realize as we continue to chase market returns allowing "greed" to displace logic. **Like gambling, success breeds overconfidence as the rising tide disguises our investment mistakes.**

Unfortunately, our errors always 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

I have no idea what this year holds. Maybe it will be another wildly bullish year where throwing caution to the wind pays off once again.

Maybe, it won't be.

The current market selloff, and rotation to value, may undoubtedly be essential clues. With market valuations elevated, leverage high, and economic growth and profit margins set to weaken, investors should be paying close attention.

Pay attention; things are beginning to get interesting.