

Enjoying the Ride: The January Effect



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Happy New Year to you and yours! I trust this finds everyone off to a positive start to 2022! Hopefully, you had a wonderful holiday with family and friends and you feel reinvigorated to get back to work, school or whatever your routine typically involves.

For many, January is commonly a time for resolutions, goal setting, a renewed focus, and a time for reflection and hopefully appreciation for our blessings like health, happiness, loved ones, accomplishments and more.

As investors, it can be a time for the so-called “January Effect.” What is the January Effect you ask? The January effect is a hypothesis that there is a seasonal anomaly in the financial market where securities' prices increase in the month of January more than in any other month. In fact, according to Investopedia the average gain during the month of January in the S&P 500 is 1.8% vs. 0.7% on average for the other 11 months.

As with all calendar effects, if true, it would suggest that the market is not efficient, as market efficiency would suggest that this effect should disappear, according to Investopedia.

Some potential explanations for the January Effect include but are certainly not limited to; selling that typically occurs in the month of December related to tax-loss harvesting (selling under performing stocks to offset gains with the hope of minimizing tax liabilities); and, portfolio rebalancing and performance drag created by year-end contributions that may stay in cash while waiting for the new year to get invested.

In addition, some investors believe that January is the best month to begin an investment program or perhaps they are following through on a New Year's resolution to begin investing for their future.

Finally, some investors who earn year-end bonuses that are typically paid out in January opt to invest some or all of their bonus money in January just as small business owners whose profits were promising during the previous year may opt to invest some of their earnings in January as well.

With the January Effect in focus, I have to say I find it a bit depressing that for most consumers the January Effect is the opposite as our spending typically rises in December to pay for gifts and holiday travel and then our balance sheets drop in January as we pay off credit card debt. But I digress.

Just remember, as you detox your body this month don't forget to also detox you balance sheet so that you can continue to Enjoy the Ride!

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