



2021 is Close and so are potential Clues for the Market

I'm not alone in saying this....

Looking forward to a great 2021!

Ah, the New Year and all of the optimism for a fresh start and perhaps even a better finish.

And what about all of those resolutions? They can be tricky to keep....

The January Effect might be one of those market events that could possibly keep its promise.

If you're not familiar with the January Effect it is another seasonal phenomenon that could provide clues for the potential market direction for the year.

Loyal readers of On Pointe will know we pay a lot of attention to the many different "seasons" in the markets. We wrote about the "[Santa Claus Rally](#)", "[Hey Small Caps](#)", and "[Is it Fall in the Markets](#)" which describe these market events and their interplay with the market calendar.

The January Effect is no different.

I had a conversation with one of my new 401k clients in an emerging industry last week. He's the CEO of an up and coming startup bringing technology to a new industry that really hasn't had much tech support.

As he turns the page on 2020 regarding his personal investments he was asking what to look for in 2021.

So I pulled out my crystal ball and.... Kidding.

We did talk about the January Effect and how there is sometimes a tendency to see the markets lift. In some cases the returns of the major indices for the first week can at times forecast the returns for the year.

Some traders and market watchers look to the very first day of trading!

Essentially, the January Effect is the tendency for the markets to lift for the first month of trading.

The January Effect has also been tied to the tendency for Small-Cap stocks to rally as some money managers seek higher potential gains by increasing risk and investing in smaller companies.

The generally speaking, much like making the New Year's resolution, there is a sense of optimism for positive change and for a better year.

Unlike the resolution that can last for the first three weeks, there has been market evidence to suggest the markets can "follow through" more often than not. And this is not to say that this means the markets end on a positive note.

While there is evidence to suggest this seasonal event is becoming less prominent, we like to use this information as one of the many possible indicators to help provide either evidence of a potential bear market (stocks trending lower) or a bull market (stocks trending higher).

Going back to the New Year's resolution game...

If I'm already in weight loss mode by exercising and eating balanced meals for the past several months, chances are if I start the New Year with the same schedule chances are I can make that resolution a reality. I might apply this same dynamic to maintaining a current trend in the market.

Versus ending the year strong but then don't follow through to start the year off right. Perhaps this might suggest a warning for me to put my running shoes back on despite the cold weather and get back to my once positive routine. Or if we look at a potential clue in the market, this might be a sign that this market will struggle to maintain its current trend.

My thoughts are to use the January Effect to confirm potential trends or find possible problems with those trends, similar to my hopeful weight loss schedule!

I certainly hope the markets don't get out of their "routine" for 2021 but we'll keep a close eye and change as needed.

Happy New Year and take care,

Jim

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