Historically, as I have been mentioning for weeks, the market is in the midst of one of the most favorable times of the year. The big picture is positive seasonality from November 1 through April 30 with November and December being especially strong. More granular, late December through early January is even better. And the traditional Santa Claus Rally (SCR) began at the close of trading on December 23rd. That's five trading days before year-end and the first two trading days of January, ending on January 5th, 2021. During this 7 day period, stocks are "supposed" to rally.

Why is this? We can only speculate.

However, we do know a number of factors. First, downside catalysts are hard to find this late in the year and around the holidays. Companies do not usually announce bad news during the holiday season. Big picture geopolitical events are typically quiet as the year ends. Mutual funds have already closed their books for the year and paid out those tax biting distributions. Finally, tax loss selling, where investors with taxable accounts sell their losers to either recognize losses or to pair them up with gains taken, abates and is largely over. So, it is much more difficult to engineer anything more than a mild 1-3% pullback during the SCR period.

Remember the old adage made popular by Yale Hirsch from the Stock Trader's Almanac? "If Santa Claus should fail to call, bears may come to Broad and Wall." While Yale posited that a bear market would ensue if the SCR did not come to fruition, the truth of the matter is that a decline usually follows during the first half of the new year with Q1 being the most likely time. It doesn't necessarily have to be a full-fledged bear market.

I know pundits love to pull out stats since 1950 and sometimes even back to 1928. Statistically, the more date you have in a study, the more robust the result. And while that is mostly true, I am pushing back because markets have changed and morphed and adapted so much over the decades. It's not like pulling tens of thousands of short-term data points in 2020 or over the past few years. Heck, stocks used to trade on Saturdays in the good ole days. Stocks used to trade in fractions instead of decimals. Stocks used to trade by humans on the floor of the NYSE instead by super computers.

My point is that all data is not created equal, and the older data should be given less weight or no weight at all. I can run the SCR study since 1950 or 1928, which I have, but I will focus on more recent history since 1990 and 2000.

Since 1990 the SCR has resulted in a positive reading 22 out of 30 times (73%) for a median gain of +0.75% over 30 years. In years where Santa called, the median gain was +1.31%. When Santa gave us coal in our stockings, the median loss was -2.41%.

Since 2000 the SCR has resulted in a positive reading 16 out of 20 times (80%) for a median gain of +1.06% over 20 years. In years where Santa called, the median gain was +1.27%. When Santa gave us coal in our stockings, the median loss was -2.41%.

Overall, there wasn’t much difference between using 1990 or 2000 as the start date. And if I started in 2010, the result still conform.

Setting Santa and the SCR aside, years ago, I started tracking the last five days of the trading year, or L5 as I call it. While there is a majority of overlap with the SCR, the L5 can often signal different conclusions.

Since 1990 the L5 has resulted in a flat or positive reading 16 out of 30 times (53%) for a median gain of +0.03% over 30 years. In years where L5 was positive, the median gain was +0.82%. When L5 was negative, the median loss was -0.79%.

Since 2000 the L5 has resulted in a flat or positive reading 11 out of 20 times (55%) for a median gain of +0.03% over 20 years. In years where L5 was positive, the median gain was +0.29%. When L5 was negative, the median loss was -0.98%.

Looking for predictive elements, I researched stock market performance in Q4 and year-to-date to see if there were any statistical edges. Since 1990 using Q4 data, there is a 52% chance that L5 will be positive this year and 73% chance that SCR will finish in the green this year. Those results are in line with random results and do not indicate that putting new money to work has a robust edge.

The only “however” is that if we saw a quick move lower, that would set up a very short-term trade to the upside into the first week of January. I know. I know. Who really cares about such short-term measures? You can put this under the heading of interesting to analyze, but not very actionable.

Stay tuned next week to see if any actionable conclusions result from the SCR and/or L5.

As always, please don't hesitate to call, email or Skype with any questions, comments or concerns.

If you are looking to schedule a call, Skype or Zoom meeting, here is the link to my calendar. https://schedulewithpaul.as.me/

Early mornings, evenings and weekends should be scheduled directly with me.

Thanks

To Your Financial Success,

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