Seasonal stock market indicators flashing warnings to investors

First week of 2016 worst start for U.S. stocks

By Daniel Schwartz, CBC News Posted: Jan 09, 2016 5:00 AM ET | Last Updated: Jan 09, 2016 3:23 PM ET

After the first week of stock trading in 2016, three early seasonal indicators are flashing warning signs that it could be a tough January and a down year for investors. (Balazs Mohai/EPA)

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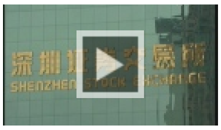

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The Toronto stock market has entered bear market territory, while in the United States the S&P 500 index had its worst five trading days to start a year since at least 1950. The index was down 122 points for the week, a loss of six per cent.

Canadian, U.S. and European markets were down Friday.

Sam Stovall, the chief equity strategist for S&P Capital IQ, says the week "was a very rude awakening and reminder that there is still a lot of uncertainty surrounding global economic growth and geopolitical issues."

Jeffrey Hirsch, editor of the Stock Trader's Almanac, says, "When you open up a year this horribly, it's not a great sign, it's emblematic of a weak and troubled market."

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On Tuesday, **CBC News looked at seasonal indicators** investors could watch for possible early signs of market performance in the year ahead. We now know results for three of those indicators, and all three are flashing warning signs.

No Santa Claus rally

First to fall was the Santa Claus rally. If the result of the last five days of a year plus the first two days of the new year show a gain for the S&P 500, that's a Santa Claus rally and a positive for the year ahead.

But if the index is down, then the markets usually have a down year, or at

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External Links

- Stock Trader's Almanac
- Jeff Hirsch's blog, Almanac Trader
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least a bear market sometime in the new year. This time, the index fell 2.3 per cent over those seven trading days.

Overall, U.S. stock markets are up annually about four out of five times, but the last four times there was no Santa Claus rally, Hirsch points out that Wall Street either had a flat year or suffered a bear market.

2016 is just the 15th year since 1950 in which the rally didn't happen.

Next to trigger a warning was the December low indicator. This one compares the lowest closing low for the Dow Jones industrial average during December to the closing lows during the first three months of the new year. During that quarter, if the Dow has a closing daily low below the December low, that's supposed to be a warning to investors.

That had already happened by Wednesday.

in the U.S., the S&P 500 index had its worst five trading days to start a year since 1930, finishing down 122 points for the week, a loss of six per cent. (Spencer Platt/Getty)

The first 5 days were the worst

The third indicator is known as the first five days early warning system. If the first five trading days of the year are negative, the U.S. stock market usually ends the year in the red, something that doesn't happen most years, of course.

Since 1950, the only other year in which the index lost more than five per cent during the first five days was 2008, when it lost 5.3 per cent. The S&P 500 finished 2008 down 38.5 per cent.

The indicator isn't always right, more so when it's negative. For example, in 1991 the index lost 4.6 per cent during the first five days but finished the year up 26.3 per cent.

However, 1991 began with war looming. The UN had ordered Iraq to withdraw from Kuwait, which it had invaded the previous August, by Jan. 15 or face military action.

Waiting for January's results

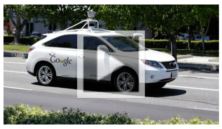
The next seasonal indicator Hirsch watches is known as the January barometer, first highlighted by his father Yale, who said, "As goes the month of January, so goes the year." That indicator has an 87.7 per cent accuracy ratio, excluding flat years, Hirsch says.

Stovall told CBC News that while the early warning points to market confusion, he will also be watching the markets' January performance. "A negative January would, in a sense, flick on the light regarding uncertainty or confusion, whereas a positive January flicks on the light that says confidence."

Hirsch says it's important to look at the four indicators together. "If the market can't rally in January and come back to positive territory, we're not looking at a very pretty picture."

However, he also says, "given the recent tendency for the market to rebound just as sharply as it sells off, the possibility of a positive January is not all that far-fetched."

His data shows that since 1950, there have only been two years in which the first three indicators were negative and the January barometer was positive but both those years, 1991 and 1993, finished the year in



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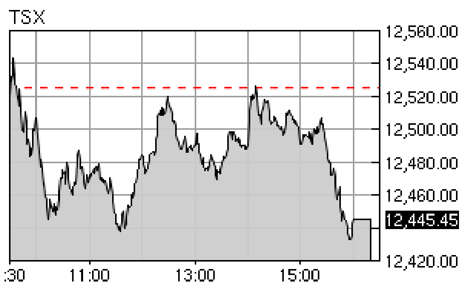

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Index	Last Trade	Change
TSX COMPOSITE	12445.45	-2.76
DOW	16346.45	-167.65

positive territory.

Hirsch also points out that there has only been one year in which all four indicators were negative but the S&P 500 still finished the year with a better-than-average gain. That was 1982, the year the longest bull market in history got its start.

Another 2008 comparison

Some investors got spooked on Thursday, and not just because it was the second time this week the Shanghai stock market halted trading after witnessing drops of about seven per cent.

In Thailand, famed investor and billionaire George Soros gave a speech, which business media around the world reported. After noting what he called China's "major adjustment problem," he said, "When I look at the financial markets there is a serious challenge which reminds me of the crisis we had in 2008."

Chinese investors monitor stock prices in a brokerage house in Beijing on Friday. Sam Stovall of S&P Capital IQ says the real fear is the Chinese economy and its effect on Latin America and Europe. (Mark Schiefelbein/Associated Press)

So there's another 2008 comparison, but investors should remember the standard line, "past performance is no guarantee of future results."

Adding to investor nervousness is the track record for the markets in the eighth year of a U.S. presidency. The Dow averages a 13.9 per cent drop, and was down five of the last six times.

And Stock Market Almanac data shows that the first five days indicator is especially reliable in presidential election years, accurately predicting the year-end result 14 of the last 16 times.

Global bear market?

Some market watchers are on record that the U.S. is already in a bear market and that it's just a matter of time before the markets fall at least 20 per cent from their high in May last year, the benchmark drop required to meet the bear market definition.

Like Toronto, most of the world's stock markets are already in a bear market, according to a report from the Swiss financial services company UBS.

And like mountain climbers, Stovall says, with all economies tethered together, even though the U.S. "seems to have a solid grip and a solid footing, the other countries don't, and should they slip off of the mountain, they will pull us down with them."

- **No Santa Claus rally? Investors better watch out**

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Index	Last Trade	Change
NASDAQ	4643.63	-45.80
SP 500	1922.03	-21.06
TSX-VENTURE	514.67	0.92

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