Philequity Corner (12/26/05)
By Ignacio B. Gimenez

Santa Claus Rally and the January Effect

There is a famous stock market tale that during the time of Christmas, Old Saint Nick comes to the aid of weary investors – whether they've been naughty or nice – by boosting stock prices in what is known as the *Santa Claus rally*.

This holiday story, which brings good cheers and potential riches for investors, was first documented in the 1970s by Yale Hirsch in his classic book, the Stock Trader's Almanac. According to an updated version of the almanac, the Wall Street benchmark S&P 500 index has risen 1.7% on average in December since the 1950s.

Good thing Santa's reindeers can fly because miles across the Pacific this same story finds some truth here as most years have indeed ended on an up note for Philippine stocks.

Below is a table which shows the month-on-month change in the benchmark Philippine Composite Index (PHISIX) during December and January covering the last 19 years.

PHISIX MoM Performance during December & January (1987 – 2005)

Year	Dec %Chg MoM	Jan (year + 1) %Chg MoM	Dec-Jan Average
1987	17.5%	0.3%	8.9%
1988	15.2%	-0.4%	7.4%
1989	-16.2%	-5.0%	-10.6%
1990	5.0%	16.1%	10.5%
1991	5.9%	9.0%	7.5%
1992	-0.6%	6.7%	3.1%
1993	37.0%	-10.1%	13.5%
1994	3.5%	-13.1%	-4.8%
1995	6.2%	11.2%	8.7%
1996	2.6%	7.9%	5.3%
1997	5.5%	4.2%	4.9%
1998	-0.3%	-0.7%	-0.5%
1999	8.3%	-7.2%	0.5%
2000	6.4%	12.9%	9.6%
2001	3.5%	16.6%	10.1%
2002	-2.8%	3.8%	0.5%
2003	9.8%	4.6%	7.2%
2004	-0.4%	10.8%	5.2%
2005*	0.6%		
Average	5.6%	3.7%	
No of times w/ positive chg	13 out of 18	12 out of 18	
% of times w/ positive chg	72.2%	66.7%	

* Updated as of Dec. 23, 2005

Source: Technistock, Philequity Research

As you can see, the month of December is normally favorable to stocks having gained an average of 5.6% for that month during the last 18 years. Looking back, 13 out of the last 18 Decembers (or 72.2% of the time) ended up positive for the month.

The following month of January likewise tends to be good for stocks, returning an average of 3.6% during the last 18 years. Also, 12 out of the last 18 Januarys (or 66.7% of the time) registered month-on-month gains.

Taking into account the combined December to January period, you will notice that only 3 times during the last 18 years (or 16.7% of the time) did it show a negative average return.

There are many theories to explain this cheery phenomenon called the Santa Claus rally. Some people believe it is caused by the end-of-year window dressing by fund managers and institutions, which tend to go on a buying spree to pump up their annual results for their clients. Others say it is a result of end-of-year tax considerations, while some argue that it is because all the market pessimists are out on holiday. Combined with the general holiday spirit during this *merry* Christmas and the jovial mood of the people who have just received their bonuses (some of which find their way into stock investments), the markets usually end up higher.

This rally is usually carried over to January in what is called *January effect*. A *happy* new year brings new hope that things will be better and it also encourages people to invest. At the same time, the fund managers who sold and took profits in December will start putting on new positions. This is also the period when stock prices tend to rise in anticipation of retirement money being invested in January.

Seasonality in the stock market

Carrying our study further, we found out that seasonality is also evident in other months of the year.

Historical MoM Performance (1987 - 2005)

	%Chg MoM (average)	**No. of times w/ positive chg**	**% of times w/ positive chg**
Jan	3.7%	12 out of 18	66.7%
Feb	1.4%	8 out of 18	44.4%
Mar	-0.7%	7 out of 19	36.8%
Apr	1.8%	11 out of 19	57.9%
May	2.3%	12 out 19	63.2%
Jun	3.0%	11 out of 19	57.9%
Jul	1.1%	10 out of 19	52.6%
Aug	-5.2%	5 out of 19	26.3%
Sep	-3.4%	9 out of 19	47.4%
Oct	3.0%	10 out of 19	52.6%
Nov	0.8%	10 out of 19	52.6%
Dec	5.5%	13 out of 18	72.2%

Source: Technistock, Philequity Research

From the table above, you can see that next to December and January, the months that show consistent positive returns are May and June which increased an average of 2.3% and 3.0%, respectively.

Remember the old stock market advice to stay away from stocks during the (Chinese) *ghost month* of August? Clearly, our data show some truth in it. Stocks during August declined an average of 5.2%. Only 5 of the last 19 years (or 26.3% of the time) did this month record a positive return.

For the Chinese, the 7^{th} lunar month, which falls around August and part of September, is the month where the gods allow hungry ghosts, usually confined in the underworld, to roam the world. This month is viewed by the Chinese as an inauspicious month to start anything, whether it be marriage, business or buying new stocks. Thus, regional stock markets, including the Philippines, usually falter during this period.

This occurrence may also be explained by the fact that August is the month when most American and European fund managers take their vacations during the *dog days of summer*. Named in early times by people in the Mediterranean to describe the period when Sirius (the dog Star) comes into conjuction with the Sun, the dog days of summer refers to the hottest phase of the year.

September likewise tends to be negative for stocks as this month registered an average loss of 3.4% during the last 19 years. For bottom-pickers, however, this is the most opportune time to load up on stocks as the market usually rebounds by October and this tends to be followed by the end-of-year rally described earlier.

Every investor's Christmas wish

Investors saw a glimpse of the Santa Claus rally last week. The PHISIX closed at 2,111.46 on Friday, 3.12% higher than the previous week's close. Month-to-date, the PHISIX is slightly up by 0.6%. Will this rally hold and continue on towards January? We're sure this is on top of every investor's wish list. And if we base our answer from the almanac, jolly Old Saint Nic will likely be in town once more to grant our wish.

Merry Christmas and have a happy and profitable New Year!

For comments and inquiries, you can email us at gime10000@yahoo.com or info@philequity.net.