

# Does a bad January mean a bad year for share markets?

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The Americans call it the January Barometer – the stock market performance for the first month, sets the pattern for the rest of the year. But Massey University finance researchers say while this may hold true for the United States market, the January Barometer is no predictor of how the year will go on international equity markets.

Researchers Dr Ben Marshall and Nuttawat Visaltanachoti, from the Department of Economics and Finance, ran their own analysis on the ability of positive and negative returns from the equity markets in January to forecast positive or negative performance for the following 11 months. They found the January Barometer – a hot topic of discussion in finance circles – stood up only in the US.

“We conclude that just because the US and international markets have started very poorly this does not necessarily mean the next 11 months will be bad,” says Dr Visaltanachoti.

The researchers say that although many quarters of the US finance industry, including news media, quote the January Barometer as a signal of future market performance, the technique is still considered to be an “open puzzle”. They say their analysis is unique due to use of advanced test procedures and consideration of the US and 22 other international markets.

They found in many other countries what happened in January did not foretell returns for the rest of the year. Only Japan and Spain had

statistically significant returns in their market that followed on from a positive or negative start in January. However, their advanced test procedures revealed that even in those markets the relationship was relatively weak and may simply be due to chance.

“This finding seems strange and raises the question as to whether the finding in the US is in fact by chance. We are not aware of any institutional reasons why the January Barometer should be so accurate in the US but not in other markets. There appear to be two possible explanations. Perhaps it is a matter of chance or perhaps there are some institutional factors in the US that we are not aware of,” says Dr Visaltanachoti.

Source: Massey University

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