

Santa Claus Rally

Since 1950, the S&P 500 has risen 70% of the time from Thanksgiving through New Year's Eve, for an average gain of 1.7%. Specifically, the last five trading days of the year and the first two in January have been referred to as the Santa Claus Rally, because of a tendency for the stock market to go up between 1% to 2% over those days.

There are several theories why this might be true. One theory is investor optimism fueled by the holiday spirit. Another theory is that this is the time of year when institutional investors go on vacation, leaving the market to retail investors, who tend to be more bullish.

There are certain times throughout the year like November and April that have historically been great times to invest, and other periods like September have been consistent losers. What if we just invested during the good times? My firm recently researched exactly that.

We looked back over the last 70 years, and we identified which weeks and months of the years have been the best to invest in and which were the worst. Then we back tested over the last 10 years investing in the S&P 500 index during historically good periods and selling to cash during the bad periods. Over the last 10 years, buy and hold investors averaged about 9.86%, however if each year we sold into cash on the same historically bad days and were long the S&P 500 on the historically good days we would have averaged over 14%.

Using this strategy, over the last 10 years, \$100,000 would have grown to about \$377,000 versus only \$251,000 for buy and hold investors. We were impressed by the excess returns and are now offering a seasonality-based managed account to avoid investing throughout the year during the historically bad times. However, we recommend that investors who utilize this strategy do so in a retirement account to avoid short term capital gains.

Source: Barrons and Yahoo Finance

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