

Banking on the Capricorn effect to kick in

By JONATHAN KWOK

Belief that stocks tend to rise in January and recent market rally boost hopes

TRADERS hope the stock market's recovery over the past two sessions show that the fabled Capricorn effect is starting to kick in.

The benchmark Straits Times Index (STI) added 32.7 points or 1.07 per cent in total, last Thursday and Friday, to close at 3,094.48.

The increases came despite the United States Federal Reserve saying last Wednesday that it would cut its rate of bond-purchases, a move many traders had feared would crash the market.

The counter-intuitive rises marked a turnaround in what had been a disappointing December.

The STI is still down 81.87 points or 2.58 per cent this month but there are now hopes that a new driving force could be taking shape.

The Capricorn effect, which has become part of stock market lore here and overseas, is the belief that stocks tend to rise in January.

Possible explanations include people investing their bonuses at the start of the year, while remisier Gary Goh said it could be due to investors being keen to start the new year by making some money in the stock market.

Observers said that investors could also be tempted to dabble in shares to reap profits ahead of the Chinese New Year period, leading to some calling the rises the "pre-Chinese New Year rally".

Investors in foreign markets with capital gains taxes might sell and buy stocks at the turn of the year to avoid the levies.

"The Capricorn effect may have some truth to it, but sometimes it doesn't arrive," said Mr Goh, the remisier.

"People may buy in December in anticipation of this effect and, thus, it may become a self-fulfilling prophecy as well."

Some academics said that, in recent years, there has been less evidence of the actual, classic Capri-



Capricorn effect in recent years

	% rise in Straits Times Index
Dec 1, 2012 to Jan 31, 2013	6.93
Dec 1, 2011 to Jan 31, 2012	7.56
Dec 1, 2010 to Jan 31, 2011	1.11
Dec 1, 2009 to Jan 31, 2010	0.48
Dec 1, 2008 to Jan 31, 2009	1.97

Source: BLOOMBERG

corn effect - the market rising between Jan 1 and Jan 31.

Singapore Management University professor Benedict Koh said in a Sunday Times article last year that there was a "lack of evidence of the January effect in the last 24 years".

But a Straits Times compilation showed that an alternative strategy of trying to buy in earlier and anticipating the Capricorn effect would have yielded positive results for the past five years.

The study compared the STI's

values right at the start of December and at the end of January.

The STI has risen over this two-month period in recent years. For instance, it gained 7.56 per cent between Dec 1, 2011 and Jan 31 last year.

Even during the darkest days of the global financial crisis the STI rose 1.97 per cent between Dec 1, 2008 and Jan 31, 2009.

However, there are exceptions to the pattern if one looks further back.

For instance, the market

dropped drastically from Dec 2007 to Jan 2008.

And this time round, the STI has some catching up to do if it wants to continue its recent streak - it needs to recover about 82 points and some index stocks have dropped below key support levels.

OCBC Bank, for one, has fallen below \$10 this month. It rose 12 cents to close at \$9.99 last Friday.

In any case, whether one chooses to buy this month or next, it is

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- Remisier Gary Goh

BUYING WISELY

Take it with a pinch of salt - that's the most important thing. Overall, all these price movements are highly dependent on the market situation at that point in time. Plus, it is also more the quality of the companies that dictates the price movements.

- Mr Goh, on being careful not to be over-reliant on the Capricorn effect to make buying decisions

” best to be extra cautious. It is not wise to base decisions mainly on an effect with conflicting rates of success and no clear explanation behind it.

"Take it with a pinch of salt - that's the most important thing," said Mr Goh. "Overall, all these price movements are highly dependent on the market situation at that point in time."

"Plus, it is also more the quality of the companies that dictates the price movements."

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