

MV Capital Management Weekly Market Flash

Where's the December Effect?

December 13, 2013

Last week we wrote about the strange relationship between economic news and recent market performance. Major stock indexes were turning sour ahead of a possible Fed taper in mid-December, even as the economic news looked more promising than it has for a number of years. The sourpusses have continued to hold the upper hand this week. As of the Thursday close the S&P 500 was down by just under 1% for the month to date. Hey, wait a minute! Isn't the "month to date" of which we speak December? Isn't there some kind of a special thing that happens this time of year, a little good cheer to close out the calendar?

In search of lost Decembers

Marcel Proust apparently could reconnect to the distant times of his childhood by smelling the aroma of a madeleine soaked in tea. We're not nearly as poetic, but we do remember the markets of Decembers past and indeed the memories are, for the most part, good ones. Since 2000 the S&P 500 price return for the twelfth month of the year has been negative only three times out of 13, up to the end of calendar year 2012. The average return for the ten positive Decembers is 2.1%, a good-sized holiday present indeed. Theories abound as to why December may be a better month on average for stocks than others. One thought, which makes sense to us, is that brokers and portfolio managers hasten to dress up their portfolios with whatever assets are in favor, providing momentum for companies and industry sectors that have shown recent outperformance.

Momentum-less market

Actually, there is not much momentum leadership going on at all these days. For industry sectors, the only truly consistent trend over the past several months has been utilities, and that is a negative trend (utilities are up by a bit over 11% this year, substantially less than half what the S&P 500 has gained year to date). Others, from consumer staples to industrials and financials, have had their day in the sun, but in general the trajectory has grown more directionless in recent weeks. The money movers seem to be in no particular rush to spruce up their portfolios with crowd-pleasing names. Perhaps they're not feeling the pressure quite so much, given how well the broader market has done this year.

There is no "average December"

Of course, just because the average performance for the month is good doesn't mean it will be thus every time. Every December – for that matter any defined period of time at all – has its own unique aspect. There are many factors that influence the short-term direction of the market, and hanging your hat on some "effect" theory for predicting the performance of any specific December is probably unwise. It may well be that there just isn't much more goodness to extract from this current, long-standing rally. The trailing twelve month return on the S&P 500 has not been negative for one single day since the beginning of 2012, which is extraordinary. A pause for profit-taking surely should not come as a complete surprise.

Month not over yet

Finally, lest we forget, we're not even at mid-month yet. Two weeks is a long time in this world – enough time for anything to happen. We're keeping an eye on lots of different moving parts including, of course, next week's Fed confab. But whether or not we get a late December effect tailwind, we'll take 2013 as a whole over most of the other calendar years the 21st century has served up thus far.

Masood Vojdani
President & CEO

Katrina Lamb, CFA
Head of Investment Strategy & Research

Investment Advisory Services offered through MV Capital Management, Inc., a Registered Investment Advisor. MV Financial Group, Inc. and MV Capital Management, Inc. are independently owned and operated.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by MV Capital Management, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from MV Capital Management, Inc. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. MV Capital Management, Inc. is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the MV Capital Management, Inc.'s current written disclosure statement discussing our advisory services and fees is available for review upon request.