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Ho Ho Horrible Holiday Investing Myths

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Instead of sitting back with a glass of egg nog and overdosing on Rankin/Bass holiday specials, some investors spend year-end trying to decorate their portfolios with dubious investment ideas. Here are three holiday follies that are even nuttier and harder to digest than fruitcake.

Santa Claus Rally

Yes Virginia, there may be a Santa Claus, but don't count on a Santa Claus Rally — a small upward blip in stock prices that sometimes occurs between Christmas and New Year's. Explanations for the rally, which was "discovered" in 1972, include bears and other pessimists giving in to the holiday spirit, year-end tax planning, even investors spending Christmas bonuses.

Like many bad ideas, there is a scintilla of a smidgeon of truth to the Santa Claus Rally. If you'd invested $10,000 in U.S. stocks last year during the seven trading days between Christmas and January 3, you'd have made, on average, a 1% profit or $100.[1]

Of course, the transaction costs of buying and selling, as well as taxes on your short-term gains, would wipe out most of your potential profits. And Santa doesn't come every year. Your portfolio could get St. Nicked as happened in 2013, when the S&P sank .06% over the holidays.

Elves

When it comes to employing elves, Santa has some competition from Wall Street. Technical analysts — or "elves" as they are sometimes known (thanks to Wall Street Week

[1] Srinivas Nippani, Kenneth M. Washer, and Robert R. Johnson, "Yes, Virginia, There Is a Santa Claus Rally: Statistical Evidence Supports Higher Returns Globally" Journal of Financial Planning, Vol. 25, No. 3, March 2015, pp. 55-60.

host Louis Rukeyeser) — comb through past market data to try and forecast future trends. They focus primarily on historical prices and volume and ignore external factors, such as economic fundamentals and news events.

So how have the elves done?

A June 2014 study, "Technical Market Indicators: An Overview," examined the ability of 93 different technical market indicators to predict future S&P 500 performance. According to the authors: "We give these technical market indicators the benefit of the doubt, but even then we find little evidence that they predict stock market returns….Overall, we do not find the market indicators generate profits that beat the buy and hold strategy."[2]

Some technical analysts even incorporate astrology in their forecasts. Here's how several "elves" responded when asked, "Do you think that the inclusion of astrology in technical analysis undermines the credibility of the craft?"

- "It depends on the type of astrology you're talking about."
- "I've seen some people make some very good calls using astrology."
- "Could astrology in some offhand way be beneficial or instructive? I'm going to say yes."
- "Astrology is bad for technical analysis only in the eyes of closed minds."[3]

Sad to say, many major Wall Street firms still employ legions of technical analysts.

Boston Snow Indicator

During Christmas in 1995 it snowed in Boston…a lot. The next year, the S&P 500 rose 20%, and the Boston Snow Indicator theory was born. According to the theory, if Boston has a white Christmas, the stock market will rise the following year.

Because there is no logical connection between Beantown precipitation and stocks, this theory is also referred to as the BS Indicator.

Sometimes, such as December 2008 and 2010, the theory has worked well. Then there are years such as 2007 when a white Christmas was followed by a 38% drop in the S&P in 2009.

Dave Andrade has put together an interactive BS Indicator tool that lets you play with various market indices and snowfall amounts over various periods so you too can see how truly worthless this Wall Street myth is.

Chasing after trends, can't miss ideas and other myths is a surefire way to put a serious dent in your serious money. Icy precipitation, elves and Santa Claus may be fun to talk about, but they should have no role in grown-up people's portfolios.

Happy holidays from all of us at Loring Ward! And if you haven't had your fill of investing myths yet, click here, to learn more about the Super Bowl Indicator.

Implementing a buy and hold investment strategy cannot guarantee a gain or protect against a loss. Past performance does not guarantee future results. All investments involve risk, including the loss of principal and cannot be guaranteed against loss by a bank, custodian, or any other financial institution.

[2] Jiali Fang, Yafeng Qin and Ben Jacobsen, Technical Market Indicators: An Overview, June 2014
[3] Andrew W. Lo and Jasmina Hasanhodzic, The Heretics of Finance: Conversations with Leading Practitioners of Technical Analysis, 2009