"Is the price of oil important to you?"

By Tommy Williams, CFP®

When it comes to interesting market related axioms there are a couple about January you should know about.


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1. The January Effect explains why U.S. smaller company stocks tend to outperform the market in January. The original theory held that tax-loss harvesting pushed stock prices lower in December, making shares more attractive to investors in January. An article published in International Journal of Financial Research explained the effect could also owe something to the optimism that accompanies a new year, as well as year-end cash windfalls.

In his book, A Random Walk Down Wall Street, Burton Malkiel described the January Effect this way, *"…the effect is not dependable in each year. In other words, the January 'loose change' costs too much to pick up, and in some years it turns out to be a mirage."*

2. The January Barometer suggests the performance of stocks during the first month of the year offers insight to the direction of stocks for the year as a whole.

Last week, the Standard & Poor's 500 Index (S&P 500) was up 2.5 percent. If the Index finishes this month higher, then the January Barometer suggests it should finish the year in positive territory.

Of course, you need look no further than 2018 to see the January Barometer is not completely accurate. In January 2018, the S&P 500 gained 5.6 percent, and it finished the year with a loss.

According to Fidelity, the theory is flawed because, while stocks move higher for the year a significant percentage of the time after gaining value in January, they also move higher for the year a significant percentage of the time after losing value in January. So, I'm not sure how valuable these "January axioms" might be but, there is one rule of thumb investors may want to consider adopting: A well-allocated and diversified portfolio that aligns with long-term financial aspirations to help meet goals along with periodic reviews with their financial professional. But you already knew that!

One market variable that is indisputable is the price of oil. In this area so many of us are tied directly or indirectly to the oil and gas industry that we all want the prices to be higher. Nationwide most people think they want lower prices. What you may find interesting is the pricing desires around the world. According to the International Monetary Fund, Federal Reserve Bank of Dallas the breakeven price of oil in Saudi Arabia to balance their country's budget is $88/Barrel. In Russia it is $53/Barrel. Those numbers are very important because if they are not able to provide services to their people the outcomes can be very meaningful – regimes overthrown, royal families banished, the "disappearance" of politicians, beheadings, etc. It's not like waiting for people to be voted out of office because the population is disgruntled with their leadership. You had better believe that Russia and Saudi Arabia have incentives to do anything within their power to move prices higher. By the way, the breakeven price for oil produced in the Permian Basin (west Texas and New Mexico) is $50/Barrel. For those who prefer higher prices it would appear that geopolitical forces are on your side. And, because I know you want to know, the price of oil in the U.S. as of this writing is $53.75/Barrel. Of course, it fluctuates constantly with market conditions.

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