

# January’s Stock Predictions Are Cloudy

ECONOMIC VIEW  
JAMES B. STEWART

A reliable barometer of the market, or just a coincidence?

As January goes, so goes the entire market year.

That’s probably the best-known aphorism from the Stock Trader’s Almanac, an annual compilation of dates, statistics and advice for investors first published in 1968 by Yale Hirsch. Mr. Hirsch also created the strategy often referred to as “Sell in May and go away,” and he identified a year-end “Santa Claus” rally.

His so-called January barometer posits that a decline in the Standard & Poor’s 500-stock index in January means that major averages will also end that calendar year with a decline, and vice versa if stocks rise during the month.

Given the global plunge in stock market prices this month, which is shaping up as one of the worst Januarys ever, it may be a grim year for stock investors. If the selling keeps up through the end of the month, the almanac suggests investors should sell stocks and wait for the inevitable further decline.

If only it were that simple.



FRED R. CONRAD FOR THE NEW YORK TIMES

**PITHY APHORISM** **Jeff Hirsch and his father, Yale Hirsch, author of the Stock Trader's Almanac, say that as January goes, so go stocks for the year.**

It’s tempting to dismiss the January barometer as just another statistical coincidence. But Mr. Hirsch’s son Jeff calculates that the January barometer has been right 87.7 percent of the time since 1950 (ignoring basically flat years) and 75 percent of the time including all years. He said the percentages were roughly the same extending back to 1938. He said no other months displayed any predictive capacity.

Jeff Hirsch posits that this is not simply coincidence. He said his father’s insight was that new political agendas — the convening of a new Congress, the inauguration of a president, the State of the Union address — emerge in January.

Traders react to them immediately, and then the economic implications unfold throughout the year. “Traders and analysts react to the political agenda, as well as what the new year looks like based on last year and the state of the world economy,” he said.

Especially ominous this year is the Almanac’s “First Five Days” indicator, which posits that in presidential election years, the market’s performance during the first five days of trading will determine whether the market ends up or down for the year. Mr. Hirsch said that indicator had been accurate in 14 of the last 16 such years.

But such causation in the stock market is impossible to prove or disprove. “You can’t possibly prove this is causal or even predictive, which might be a better concept,” said Rebecca Goldin, a professor at George Mason University and director of research for Stats.org. “That doesn’t mean it isn’t, but you’d need to know much more.”

She pointed out that a 75 or 87 percent correlation sounds impressive, but not if the stock market goes up every year, in which case

it is meaningless. In fact, the stock market does tend to rise more often than it falls: It has gained in 21 of the last 30 years, or 70 percent of the time. So simply predicting every year that the stock market would go up would have been nearly as accurate as the 75 percent rate achieved by the January barometer when all years were included.

Given the number of variables that might be used to predict stock prices, it’s possible that even a high degree of accuracy of the January barometer is a purely random outcome. “If you have a truly random variable, and there are, say, 60 million possibilities, it’s impossible not to find some pattern somewhere,” said Nassim Nicholas Taleb, a professor of risk engineering at New York University. “You might well find a correlation between changes in your grandmother’s blood pressure and stock prices. But that’s a spurious correlation.”

Professor Goldin said that if you flipped enough coins every year, you would most likely find one that predicted stock prices with 100 percent accuracy. “You could call that a magic coin,” she said. “The problem is, it wouldn’t give you any sense of how well it’s going to do going forward.”

That seems to have been an issue lately with the January barometer, whose accuracy has been slipping. Over the last 10 years, it gave false

negative indications in 2014, 2010, 2009 and 2005, and a false positive in 2011.

That’s a success rate of just 50 percent, which is what you would expect from a coin toss.

And the magnitude of a January decline doesn’t seem to be a factor. In 2009, after a dreadful start, the S.&P. 500 gained more than 23 percent for the year. In two of the four years since 1950 when the January decline was greater than 6 percent, the index ended the year with a gain.

Even Mr. Hirsch does not rely entirely on the January barometer, which he said was just one of many factors he considers when making investment decisions. Although he’s not as bullish this year as he was last year, “I’m not throwing in the towel yet,” he said.

Professor Taleb said that despite recent declines in share prices, he would not be buying United States stocks now because of high valuations, rising interest rates and plunging commodity prices. And while that decision has nothing to do with a bearish forecast from the January barometer, he doesn’t entirely dismiss such market maxims.

“One thing you learn as a trader is, don’t bet against the folk wisdom,” he said. “The odds are this is a purely random outcome, but sometimes there’s a kernel of truth in these sayings.”

# No Easy Tuition Answers

EDUCATION  
N. GREGORY MANKIW

What should we do about the high cost of higher education? As we pick the next president, that question should feature prominently in the public debate. The economic prosperity of our children and grandchildren hinges on finding the right answer.

Today’s economy leaves little doubt about the value of college. According to the Bureau of Labor Statistics, in 2014 the median worker with a bachelor’s degree earned \$69,260, compared with \$34,540 for the median worker with only a high school diploma. Over a lifetime, that difference accumulates to about \$1.5 million.

Increasing educational attainment is also the best way to combat growing income inequality. Over the last 40 years, the wages of skilled workers have increased substantially compared with those of the unskilled. Most economists agree that a leading cause is the tendency of new technologies to increase the relative demand for skilled workers. College is the main institution that can offset this trend by turning unskilled individuals into skilled ones.

Although increasing college attendance makes sense, the financial hurdle to doing so is higher than ever. The College Board reports that published tuition and fees at a typical private, nonprofit college, adjusted for overall inflation, have

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The Value of College
<b>\$69,260</b>
The median salary of a worker with a bachelor’s degree and no advanced degree.
<b>\$34,540</b>
The median salary of a worker with only a high school diploma.
<b>\$1.5 million</b>
The median accumulated lifetime earnings difference between a worker with a bachelor’s degree and a worker with a high school diploma.
Source: Bureau of Labor Statistics

increased by 70 percent over the last 20 years. What gives?

Three forces are at work.

The first is called Baumol’s cost disease. Many years ago, the economist William Baumol noted that for many services productivity barely advances over time. Yet as overall productivity rises in the economy, wages increase, so the cost of producing these services increases as well. Education is a case in point. How we teach and learn has benefited from some technological advances, such as PowerPoint presentations. But after 30 years as an educator, I am convinced that the ideal experience for a student is a small class that fosters personal interaction with a dedicated instructor. In other words, best practice remains the approach that Socrates

used to teach Plato 2,500 years ago. But because society over all is richer, today’s Socrates expects a reasonably high standard of living, and that implies hefty tuition.

The second force is the rise in inequality. Educational institutions hire a lot of skilled workers: It takes educated people to produce the next generation of educated people. Thus, rising inequality has increased the benefit of education and the cost of it.

The third force at work is what economists call price discrimination. Businesses have an incentive to charge different prices to different consumers based on their willingness and ability to pay. Movie theaters, for example, charge children less than adults for a ticket.

Colleges have increasingly followed this practice by raising published prices and offering more financial aid based on a family’s resources.

The impact of increasing price discrimination is clear in the data. That 70 percent figure for the 20-year increase in published tuition and fees shrinks to 32 percent for the average net price. The expansion of financial aid explains the difference.

So what should we do about the cost of education?

One approach is to make higher education a right. Senator Bernie Sanders advocates free tuition at public colleges and universities.

The main problem with this idea is that there is no way to make education free. The Sanders plan just shifts the cost from the student to the taxpayer. In light of the unfunded liabilities already on the govern-



NICHOLAS LITTLE

ment’s books from existing entitlement programs, mainly for older adults, creating a new one for the young seems problematic.

Another approach is to find better private mechanisms to finance higher education. Senator Marco Rubio wants to establish a legal framework in which private investors help pay for a student’s education in exchange for a share of the student’s earnings after college. In essence, the student would finance college less with debt and more with equity.

Whether private money would show up for this is an open question. Future poets might be willing to pledge a fraction of their incomes, while future bankers might pass on the opportunity.

Unfortunately, there are no easy answers here. We can hope that future technologies will significantly reduce the cost of college. If they do not, as is likely, we will need to find better ways than we have now to pay for a system that is increasingly valuable but also increasingly expensive.

# Calculating The Price Of Fun

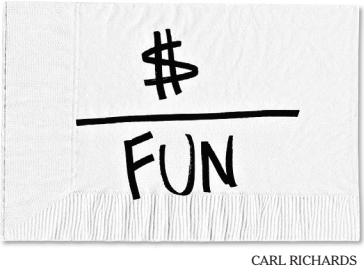
SKETCH GUY  
CARL RICHARDS

A few years ago, my wife and I considered buying a boat. We both grew up water-skiing on the lakes in Utah, and some of my best memories involve being on the water. My friend Eric, who has a boat, introduced me to his “cost per units of fun” concept.

“Over the years,” he said, “I’ve looked back carefully at the things we’ve done that have been the most fun for our family. Above all else has been our trampoline. It cost us considerably less per unit of fun than anything else I could think of.” Way down on the list, he said, was the boat.

We have seemingly unlimited options for fun. But we all have limits on our time, energy and money. We are constantly faced with decisions on how we spend these limited resources.

Consider something as basic as dinner. I used to like going out to eat. I thought it was fun. But over time, I found that taking our four children out to dinner wasn’t always the most fun. Making dinner at home, especially on a night when everybody was involved, was awesome. We spent years going out to eat before we did this back-of-the-napkin calculation.



CARL RICHARDS

Here’s how the formula works. You divide the amount you are spending by the units of fun you get. Now I realize that ranking units of fun is subjective, but we’re not going to let that get in the way. To make it easier, use a scale from one to 10, with one being the least fun.

With the dinner example, we start with the cost; say a meal out with the family costs \$100. Over the years, we’ve discovered that for us, eating out is about a four. What we have then is \$100 divided by four, or \$25 per unit of fun.

Now, let’s compare that with making dinner at home. Typically, eating in costs like \$80. For us, eating in is a really fun experience, like a nine out of 10. So eating in equals \$8.89 per unit of fun.

This formula has its shortfalls. It’s not great for comparing a drive in your \$50,000 car with going to the free concert at the park. But I’ve found it to be an incredibly useful tool for comparing similar activities. The point is to use the formula to help gauge which activity or purchase will give you the most bang for your buck.

And the boat did not win out in our family, since we decided we valued other forms of outdoor activity much more.

# Costly Zero-Interest Credit Cards

YOUR MONEY  
ANN CARRNS

Shoppers may be enticed by offers to purchase goods with so-called zero-interest credit cards. But there’s good reason to be cautious about signing up.

The cards, offered by many major retailers, promote the purchase of expensive items with no interest owed during a defined period, typically from six to 12 months. The cards can help consumers pay for larger purchases over time.

But there’s a catch. If the purchase isn’t paid in full at the end of the promotional period, the buyer is charged interest retroactively, often at a very high rate. Sometimes, the interest is charged on the entire purchase price, even if the consumer has made partial payments toward principal.

Such deferred-interest promotions, as they are known, are often offered on store-branded cards charging interest rates of around 24 percent or higher. So consumers can end up being charged a large lump sum in interest, which keeps growing if they don’t pay it off quickly.

“It’s one of the handful of tricks and traps left,” said Chi Chi Wu, a staff lawyer with the National Consumer Law Center and the author of a new report on deferred-interest credit cards.

In one example cited in the report, a man bought a \$6,000 diamond engagement ring using a one-year deferred-interest plan. The sales



DINA LITOVSKY FOR THE NEW YORK TIMES

**READ THE FINE PRINT** **Zero-interest credit cards come with high interest rates and confusing terms.**

staff told him that interest would be owed after the promotion at a fairly high rate, but he did not understand that interest would be retroactive and would apply to the full purchase price. After paying \$5,000 of the debt, he learned that he was charged \$1,760 in interest retroactively at a rate of 29.99 percent, which was more than his remaining balance.

The Consumer Financial Protection Bureau recently found that purchases with such promotions increased by nearly 21 percent between 2010 and 2013, and it flagged deferred-interest cards as an area of concern. The Credit Card Accountability, Responsibility and Disclosure Act of 2009, known as the CARD Act, helped make credit card terms more consumer-friendly over

**Q & A**

**¶ How can I decide whether to use a deferred-interest offer?**

Bruce McClary, a spokesman for the National Foundation for Credit Counseling, suggests that consumers create a budget to see if they can afford the partial payments necessary to pay off the purchase on time, avoiding a big interest bill.

**¶ How can I minimize the risk of having to pay retroactive interest?**

Mr. McClary said consumers should read the fine print of any zero-interest offer — particularly, check whether interest is charged on the initial balance, or only on the remaining balance after partial payments.

If you do opt for the zero-interest offer, try not to make any other purchases on the card until you pay off the balance.

all, reported the agency’s director, Richard Cordray.

But he noted that “deferred-interest products remain the most glaring exception to what has been the generally positive post-CARD trend toward upfront credit card pricing.”