What is the Santa Claus Rally?

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You may have heard about a phenomenon known as the Santa Claus Rally. Simply put, it's a prolonged increase in the Stock Market starting the week before December 25th and ending January 2nd. As many people smarter than I have concluded, the stock market as a whole is mostly random, which famously makes predicting it extremely difficult. This Santa Claus Rally, however, seems to go against that belief, telling us that around Christmas the stock market isn't actually all that random. This seems counterintuitive, but truth be told, there are some fairly compelling theories that try to explain this. I won't list them all here, but these are a few that stand out:

- Year-end bonuses are traditionally paid out around this time, and are oftentimes used to invest in stocks
- Institutional investors are likely to be on vacation during this time, leaving the stock market to the traditionally more bullish retail investors
- The positivity associated with the holiday season can lead to increased investor optimism

I could go on seemingly forever. Stock traders aren't often short of reasons for why something is going to happen in the stock market. The real difficulty is getting a straight answer once that thing didn't end up happening. But I digress, let's get back to the Santa Claus Rally.

Alright, we've got a popularly held belief, a litany of theories that try to explain said belief, and of course the historical data to back that belief up... right? Yeah, let's not get ahead of ourselves. When you start looking at the data, the Santa Claus Rally goes from a slam dunk trading strategy to what I'd call murky water at best. The term Santa Claus Rally itself was coined by Yale Hirsch in his book "the Stock Traders Almanac," after looking at the period from 1952-1971. During this period, the rally held true 17 out of 20 years, leading Hirsch to the obvious conclusion that the Santa Claus Rally was indeed a real phenomenon, 17/20 is pretty good, and in fact, it's a great start to what should've been a more thorough statistical analysis by Yale. The first issue with Yale's conclusion is that it failed to account for the fact that the stock market, on average, goes up. In fact, when you take a look at the data from 1950-2010, four out of the five days of the week average a positive return. Even further than that, during bear markets, the S&P 500 still tends to go up on more days out of the year than it goes down. So, what makes the days just before and after December 25th special? Well, according to some more recent studies, not much. A 2022 analysis by Investopedia concluded that the Santa Claus rally has returned only 0.385% over the past twenty years, calling it a "toss-up between a real effect and a normal trading week."

In the end, belief in the Santa Claus rally isn't going anywhere. You'll always be able to find a time period where the rally proves true, and you'll always be able to find a time period where it doesn't. We come back to the old conclusion that the stock market is, in fact, random.

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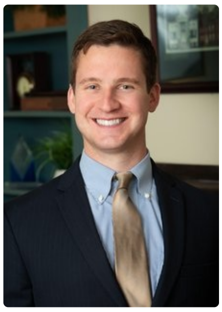

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