

Kinetic Stocks Can Deliver Big Gains in January and Beyond

On Tuesday, I shared with you about the “January Effect” – the tendency for stocks, especially small caps, to enjoy a strong seasonal bounce during the first month of the new year.

Most academic studies connect the seasonal bounce back in stocks to relief from tax-loss selling at year end. And there have been numerous studies to demonstrate the very real phenomenon that is often attributed to tax-loss harvesting in December and re-entry in January.

As a reminder, [here is a stat I shared on Tuesday](#):

Since 1927, January has posted average returns of 3.9%, which is more than twice the upside gain of the next-best month of the year (July), and far greater than the average monthly return of just 1.2%.

On Tuesday I showed you how to capitalize on the January Effect using our proprietary Low Risk Runners strategy. Today, I’ll show you a different way to position yourself for big potential gains in the new year – and beyond.

Finding Stocks with ‘Kinetic Energy’ to Soar

It’s all based on one of our core indicators, the Volatility Quotient (VQ). This measures the normal volatility that any stock has over a one- to three-year period. Because volatility is dynamic, a stock’s VQ will fluctuate over time.

Our Kinetic VQ strategy identifies healthy stocks that have a higher-than-usual VQ. This extra volatility acts like stored up “kinetic energy” that can push prices significantly higher.

Typically, an increase in a stock’s VQ matches up with a period when its price is declining. But when the VQ decreases, we expect an increase in a stock’s price.

In developing the Kinetic VQ strategy, we borrowed from physics. The concept of “kinetic energy” explains the energy needed to accelerate an object from a state of rest up to a given velocity.

Think of a tightly coiled spring. There's plenty of stored up kinetic energy building as the spring gets compressed. And when that energy gets released, the spring bounces back as it expands.

We can think about stocks in much the same way. When a stock's current VQ is above its historical VQ, it acts as additional energy — just like the compressed spring. And that energy can propel a stock higher in price as the VQ returns to a normal level.

Our Kinetic VQ Strategy is built on four key measures:

1. The historical average VQ must be less than 40%.
2. The current VQ must be at least 20% higher than average.
3. The stock must be in the Health Indicator Green Zone.
4. The underlying stock must trade 100,000 shares or more.

A Proof-Positive Strategy

We put our Kinetic VQ Strategy to the test by examining the history of nearly 1,000 stocks from 1991 to 1999, a decade of returns.

Overall, there were 829 trades that met the Kinetic VQ Strategy. And the average gain per trade — including both winning and losing trades — was an impressive 47.5%.

And get this, the average winning Kinetic VQ trade was 107% with an average holding period of 563 trading days — a bit more than two years. Meanwhile, the average drawdown for trades that didn't work out was just 20.7%.

That's a fantastic 5-to-1 reward-to-risk ratio!

With these impressive results in mind, I went to our *TradeSmith* Screener tool this week to dial up some potential small-cap Kinetic VQ rebound candidates just ahead of the January Effect.

Setting Up Your Own Kinetic VQ Screen

Sign in to *TradeSmith Finance*. Then click on the **Invest** menu at the top, then the **Screener** tab.

Next, click on **+ Create new screener**. You'll also notice there are several pre-built *TradeSmith* screens for you to explore. But let's create our own, as shown below. (My Screener may look a little different from yours, since I have Platinum-level access.)

Start by clicking on **TradeSmith Strategies**, then in the dropdown menu, click on **Ideas Lab** and select **Kinetic VQ**.

The screenshot shows the TradeSmith Finance interface. The top navigation bar includes links for Dashboard, My Portfolios, Markets, Invest (highlighted with a green box), Options, My Services, Calendar, and Pubs. Below the navigation bar, there is a '← BACK' link and a 'Create new screener' button (highlighted with a green box). A '+ Manage Filters' link with a left-pointing arrow is also present. The main section contains several filter categories: 'TradeSmith Strategies' with a dropdown menu showing 'X Kinetic VQ' (highlighted with a green box and a green circle around the dropdown arrow), 'Asset Type' with a dropdown menu showing 'X Stock', 'Market Capitalization' with radio buttons for Nano Cap, Micro Cap, Small Cap (checked and highlighted with a green circle), Mid Cap, and Large Cap, and 'Display & Sort Results' with a dropdown menu showing 'Show top 250', 'Sort results by' with a dropdown menu showing 'Strategies' (highlighted with a green circle), and 'DESC'. At the bottom right, there are three buttons: 'Save As New', 'Save Changes', and 'Run Screener'.

Again, Kinetic VQ is designed to pick stocks in the Green Zone that have stored up kinetic energy and are poised to spring higher. And we want to target this strategy prior to the January Effect.

So, add the following simple filters to your screen by clicking on the **+ Manage Filters** tab you see at top left.

Under **General**, check **Asset Type**, and under Fundamentals, check **Market Capitalization**, then the **Save & Close** button.

When you're back on the Screener page, select **Stock** for your Asset Type and **Small Cap** for Market Capitalization.

Now, be sure to save your work by clicking on **Save As New** so you can revisit this screen later.

And before you click on **Run Screener**, be sure to set **Display & Sort Results by Strategies DESC** (descending). This will ensure that the top-ranked stocks that qualify for our Kinetic VQ strategy are at the top.

When I ran this screen this week, I got 20 small-cap Kinetic VQ results. Below is a partial screen shot of the top 10.

[Saved Screeners](#) (20 results)

☐	Ticker	Rating	Health ⓘ	VQ%	Avg VQ%	VQ Ratio ⓘ	Volume	P/E Ratio	Trailing Divi...	Market Cap	Sector
☐	EAT Brinker Intl	Strong Bullish	► 1m+	40.48%	29.17%	38.78%	1,187,264	11.49	N/A	\$1.6B	Consumer Discretio...
☐	ACRE Ares Comm REIT	Bullish	► 4w+	25.38%	19.11%	32.81%	228,071	156.33	13.36%	\$534.9M	Real Estate
☐	ARI Apollo Cmmc REIT	Bullish	► 4w+	26.12%	17.41%	50.03%	461,264	218.03	13.16%	\$1.5B	Real Estate
☐	DLX Deluxe	Bullish	► 3w+	31.46%	25.14%	25.14%	178,535	25.81	6.73%	\$778.6M	Industrials
☐	LOB Live Oak Bancshares ...	Bullish	► 4w+	41.23%	33.53%	22.96%	72,752	-11,962...	0.37%	\$1.4B	Financials
☐	NBHC Nat'l Bank Hldg-A	Bearish	► 1m+	25.06%	20.14%	24.42%	249,653	9.83	3.21%	\$1.2B	Financials
☐	TAL Tal Ed Sp ADR-A	Bullish	► 4m+	73.33%	37.73%	94.36%	16,136,852	-17.81	N/A	\$1.4B	Consumer Discretio...
☐	CAL Caleres	Strong Bullish	► 5m+	43.74%	35.48%	23.28%	411,050	8.79	0.94%	\$1.1B	Consumer Discretio...
☐	MCB MTRPLTN BANK HLD	Bearish	► 2w+	42.97%	35.31%	21.71%	64,989	7.61	N/A	\$413.9M	Financials
☐	LGF.B Lions Gate NVtgRg-B	Bearish	► 3w+	44.57%	35.55%	25.38%	625,838	-1.86	N/A	\$1.3B	Communication Ser...

Then I took it one step further. I was curious how many stocks might qualify for *both* our Low Risk Runners and Kinetic VQ strategies at the same time. Here's how to find out.

In the TradeSmith Strategies box shown below, use the dropdown menu to select both strategies. Also, be sure to toggle the button just below it to **All**, which will screen for stocks that currently meet *both* strategies.

TradeSmith Strategies

➔

✕ Kinetic VQ

✕ Low Risk Runners

✕

▼

First qualified for the selected strategies within the last calendar days.

➔

All

☐

This option will provide you with results of all of the selected strategies.

Then just save and Run Screener. The six stocks highlighted by the green box in the results screen shot above qualify for both the Low Risk Runners and Kinetic VQ strategies right now.

Mike Burnick's Bottom Line: Our *Ideas by TradeSmith* includes not one but two strategies that can come in handy to identify stocks that are possible January Effect winners. Low Risk Runners uncovers stocks that you can buy on a dip. And Kinetic VQ delivers stocks that may be poised to spring higher. Best of all, you can use these, and all of our other proven TradeSmith strategies, to find stocks any time of year.

Good investing,



Mike Burnick
Senior Analyst, *TradeSmith*