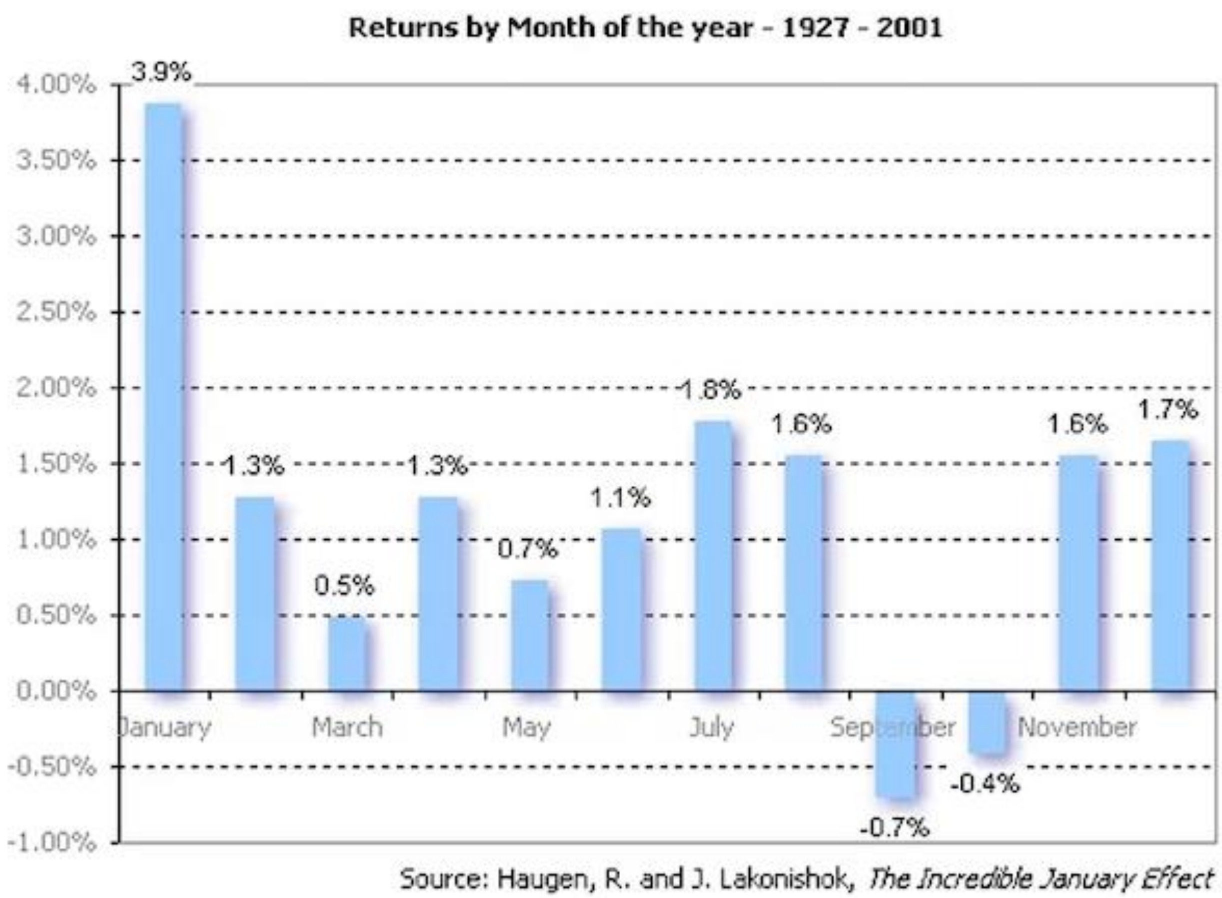
Here's a Proven *TradeSmith* Strategy to Play the 'January Effect'

Thanksgiving was just last week, and I hope all of you survived the "Black Friday" shopping extravaganza.

But savvy investors should already be looking forward to the New Year. Because that's the start of the legendary "January Effect," or the tendency of the stock market to outperform during the first month of the year.



As you can see in this chart, 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%.

Some researchers refer to the January Effect as the stock market's *unsolved* *mystery*. But there are a number of theories to explain this boost at the beginning of the year.

For instance, some researchers believe the January Effect is due to year-end bonuses and retirement savings contributions that get invested at the first of the year.

Others believe it's a market-relief mechanism after investors spend October through December selling losing stock positions to help offset capital gains on winning positions.

Much like seeing Christmas trees pop up for sale in retail stores in October, the January Effect has become more well-known by investors and we've started to see the effects on the market spreading into December as investors began to front-run this event.

Whatever the real reasons, this coming year's January Effect could be a doozy for small-cap stocks in the Russell 2000 Index.

That's because, so far this year, small caps have posted the worst performance of any major index. As of this writing, U.S. small-cap stocks are down 1.4% over the past year, while the large-cap S&P 500 Index is up 15.1%.

But as you can see below, the January Effect is especially bullish for small-cap stocks, with January returns that are seven times greater on average during the month of January alone.

That means a big potential rebound for beaten down small caps could be just more than one month away.

And *TradeSmith* has you covered with the tools and strategies that can help you take full advantage of the January Effect.

Go Low Risk and Low Price

Our *Ideas by TradeSmith* Low Risk Runners strategy could be a timely and profitable tool for you to use in January to cash in on a potential boost in small caps.

Here's how it works and how you can screen for the best possible low-risk stock opportunities among small-cap stocks – right now.

As many *TradeSmith* users know, our Health Indicator Green Zone is always a great place to prospect for new stock investment ideas. But don't overlook stocks in the Yellow Zone, which can also provide good lower-risk buying opportunities.

That's because stocks in the Yellow Zone are still trading in a healthy state, within a normal Volatility Quotient (VQ) range.

Plus, Yellow Zone stocks have only half the typical downside risk of stocks that just entered the Green Zone for the first time.

In other words, Yellow Zone stocks can be good buy-the-dip candidates. And that leads me to our Low Risk Runner strategy. Stocks have three key requirements to qualify for this strategy:

1. The stock has an average VQ that is less than or equal to 40%.

2. The stock must be trending up or sideways.

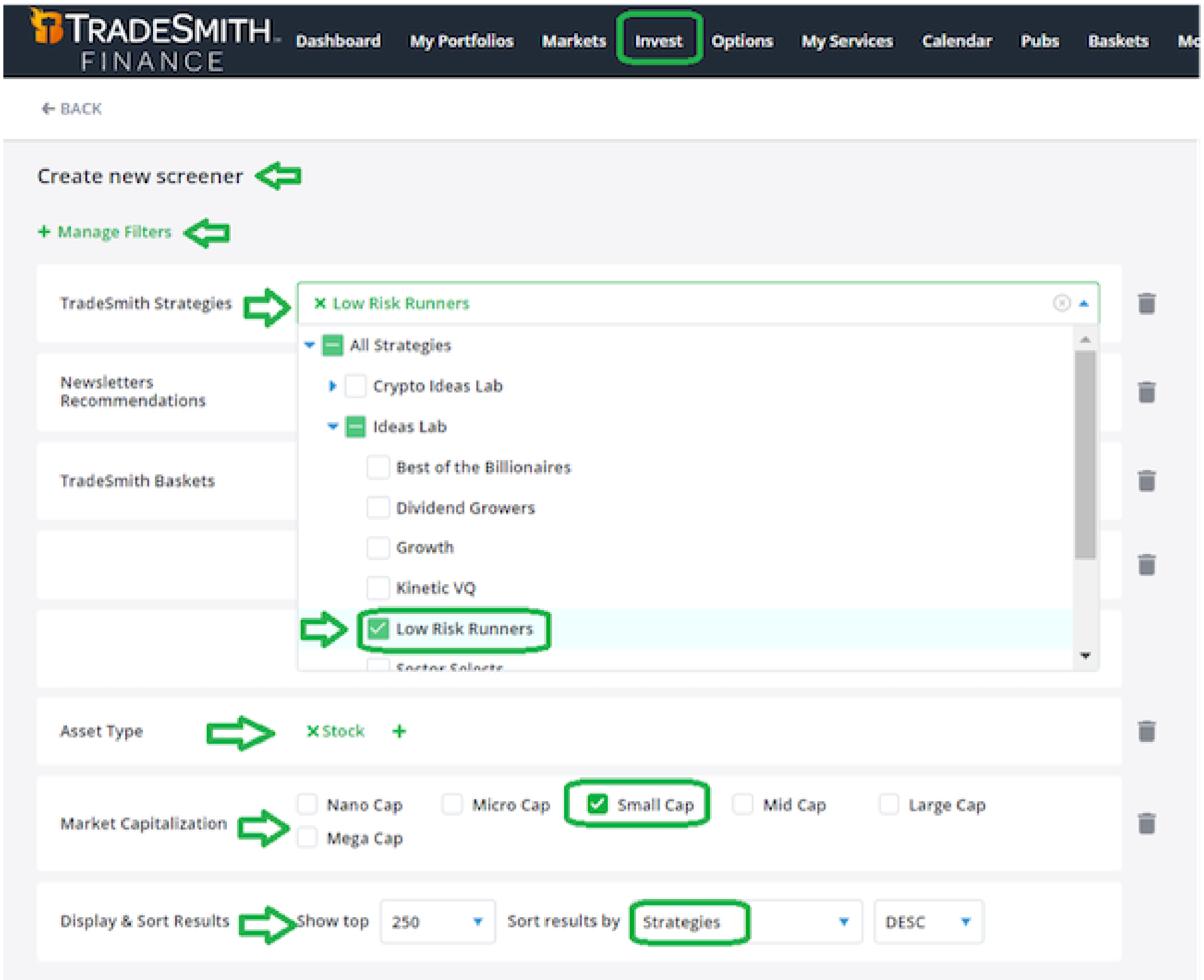
3. The stock recently moved from the Yellow Zone back into the Green Zone.

So, let's jump over to our *TradeSmith* Screener tools to find some potential low-risk buy candidates among small-cap stocks today. Note that this tool is available to *Ideas by TradeSmith, Trade360, TradeSmith Essentials*, and *TradeSmith* Platinum customers.

How to Screen for Low Risk Runners

First, be sure you are signed in to your *TradeSmith Finance* account. 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.)



Our main task is to find stocks that qualify for the Low Risk Runners strategy *and* that are also small-cap stocks. That's because these are the stocks that should benefit most from the upcoming January Effect.

Start by clicking on **TradeSmith Strategies**, then in the dropdown menu, click on **Ideas Lab** and select **Low Risk Runners**.

Remember, Low Risk Runners is designed to pick stocks that have temporarily pulled back into the Yellow Zone, then rebounded into the Green Zone. And they must be trending up or sideways. So, you don't need to select Health or Trend filters separately.

Keep in mind, you can add any other filters you like to narrow your list of potential stocks.

If these filters don't appear among your screen builder choices, click 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 Low Risk Runner stocks are at the top.

I ran this screen early this week and got 37 results. Here's a partial screen shot of my results.

Saved Screeners (37 results)

Ticker	Rating	Health	VQ%	Avg VQ%	Market Cap	Sector	Latest Close
PLYA PLAYA HOTELS	Bullish	5d	32.41%	27.45%	$1.1B	Consumer Discretio...	$7.80
ACRE Ares Comm REIT	Bullish	3w+	25.38%	19.11%	$538.7M	Real Estate	$9.95
MRC MRC Global	Bullish	2w+	39.61%	35.50%	$900.3M	Industrials	$10.68
DLX Deluxe	Bullish	3w+	31.46%	25.14%	$789.5M	Industrials	$18.07
EAT Brinker Intl	Strong Bullish	1m+	40.48%	29.17%	$1.6B	Consumer Discretio...	$35.55
BHE Benchmark Electr	Bullish	1m+	22.51%	30.56%	$907.0M	Information Techno...	$25.42
LOB Live Oak Bancshares ...	Bullish	4w+	41.23%	33.53%	$1.5B	Financials	$32.73
ASC Ardmore Shipping	Strong Bullish	1w+	45.22%	37.91%	$564.3M	Energy	$13.89
OEC Orion	Bullish	2w+	31.38%	31.03%	$1.4B	Materials	$23.50
ARI Apollo Cmmc REIT	Bullish	3w+	26.12%	17.41%	$1.5B	Real Estate	$10.72

As you can see, the stocks that made the cut are all small caps, with the largest market cap on the list at just $1.5 billion. And many on the list were low-priced stocks. I counted 10 stocks on the full list that are priced $10 or lower. These are the stocks that could really rebound in January.

Mike Burnick's Bottom Line: Our *Ideas by TradeSmith* Low Risk Runners strategy can be one of the best places on our platform to prospect for stocks that should benefit the most from the January Effect. And in my next column, I'll show you another one of our proven strategies that also fits the bill.

Good investing,

Mike Burnick
Senior Analyst, *TradeSmith*