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BODY:

SUSAN LISOVICZ, CNNfn ANCHOR, STREET SWEEP: It's that time of year again when investors start talking about the January effect. As the trading year draws to a close, money managers and a handful of experienced investors will sell their losing stocks. But after a month, they buy them back at beaten down prices and hope for the pop known as the January effect. My next guest says there's a better way to play the trend. We're joined now by Vijay Singal, head of the finance department at Virginia Tech. He's also the author of "Beyond the Random Walk: A Guide to Stock Market Anomalies and Low-Risk Investing." He joins us today from Roanoke, Virginia.

Welcome to STREET SWEEP.

VIJAY SINGAL, VIRGINIA TECH: Thank you, Susan, for having me on the show.

LISOVICZ: It's a pleasure. So what's a better way to play the market than the January effect? I mean, after all, a lot of pros are the factors or the forces behind it.

SINGAL: Well, the January effect has to do with taxes, investors with stocks that have lost a significant value during the year dump them in December to realize capital losses so that they can set them off against a capital gains and reducing their tax liability for the year. And, really, there isn't a way of effectively playing the January effect other than changing your trading patterns. So if you have losers in your portfolio, what you want to do is hold them until January and this especially applies to stocks that have done really poorly, ones that have lost 70, 80 percent during the year. You want to hold them on until January, because in January.

LISOVICZ: But Vijay, are there any stocks this year that lost 70 to 80 percent?

SINGAL: Oh, yes, there are - I was looking at the stocks yesterday morning, and there is Dan River (Company: Dan River Inc.; Ticker: DRF; URL: <http://www.danriver.com/>). There is Juniper Entertainment (sic). There is FiberMark (Company: FiberMark Inc.; Ticker: FMK; URL: <http://www.fibermark.com/>). These are just a few of those stocks. There are lots of stocks that have lost in spite of the rise in the world market. Those stocks have been poorly and if you look at the stocks, the -- approximately 500 stocks that have done poorly during the year, those are the ones that people end up selling in December, and those are the ones that bounce back, because the selling pressure that is there in December updates in January and those stocks come back up. And, in fact, I don't agree with the general perception that it has to do with window dressing. I have done research, extensive research in the area. And if it was window dressing, you should see the same thing in June and July, because investors also look at the other semiannual reports, and in June and July, there's absolutely no July effect, or whatever that would be

called at that time. So all of it has to do with taxes and it arises in the ones that have lost a significant amount of money during the year.

JOHN MURPHY, STOCKCHARTS.COM: Vijay, this is John Murphy. Another aspect of the January.

SINGAL: Hi, John.

MURPHY: How are you? Another aspect of the January effect is the fact that small stocks tend to do better than large stocks during the month. But given the fact that small stocks have had such a great year, do you think that will be a factor this year in the January effect?

SINGAL: Well, you know, the small stocks that I'm talking about are not the Nasdaq stocks, because the stocks that I'm looking at are the really small stocks with the median cap of about \$25 million. These are the stocks that fall in the bottom 10 percent of all stocks. The Nasdaq, for example, is, since it's a value weighted index, it puts much greater value on the largest stocks than on the smaller stocks. Actually, there isn't a single index that tracks these small stocks so we wouldn't be able to see how well those stocks have done, other than look at those stocks, pick those stocks and look at those stocks exactly how they've done.

LISOVICZ: Vijay, we're almost out of time, but is one of your positions that investors could hold up to 300 stocks? Is that right?

SINGAL: Well, no. What I'm saying is, that if you are holding a stock -- no, you're right. Investors are not going to hold 300 individual stocks. But if you have losers in your portfolio, then you want to hold on to those losers until January to sell them. If you wanted to -- wanted to capture the January effect, then what you would have to do is actually trade all of the 300 or 500 stocks in the bottom 10 percent of the universe.

LISOVICZ: OK. I'm glad you clarified that. Vijay Singal, author of "Beyond the Random Walk, a Guide to Stock Market Anomalies." Thank you so much for joining us and happy holidays to you. Happy new year.

SINGAL: Thank you, Susan. Thank you, John, and happy holidays to you.

LISOVICZ: Thank you.