



## « THE ICEMAN GAINETH

As predictable as tighter waistbands after the holidays is increased chatter from market pundits about the January effect—the outsize profit that small-cap stocks tend to earn in the opening month of the year. The problem with the January effect is that it is most pronounced in microcap stocks, which are so expensive to trade that transaction costs and taxes wipe out most of any gain. ■ Professor Vijay Singal, however, has a novel take on the phenomenon. Singal, head of the department of finance at Virginia Tech and author of the recently published *Beyond the Random Walk: A Guide to Stock Market Anomalies*, notes that the January effect's real winners are actually the losers—those stocks that have fallen 70% or 80% over the previous year. (It's that drop that propels most of them into microcap territory.) ■ Owners of such stocks sell in December, claims Singal, so they can use the losses to offset taxes due on profits realized during the year. Come January, the now oversold stocks are primed to bounce back. Between 1988 and 2001, the 10% of stocks that did the worst over the previous year gained an average of 10% in January, compared with a typical gain of less than 2% for stocks that performed better over the previous 12 months. ■ No, you don't want to scoop up the dogs in December with the plan to sell come Jan. 31, because the problem of transaction costs still applies. But if you own some catastrophic losers, you could well recoup some of your losses by postponing a sale until the end of January. Yes, that means you'll put off booking that tax loss, but Singal's stats indicate that you'll still come out ahead. And entering the new year with healthier returns is the best kind of January effect. —MAGGIE TOPKIS

Is the January effect merely a statistical tease?

### Kodak refocuses

In a move that stunned investors, **Eastman Kodak (EK)** announced in September that it would slash its dividend by 70% and redirect the cash flow into acquisitions to beef up its digital businesses. **MONEY's** Pablo Galarza recently spoke with CEO Daniel

Carp about his new strategy.

**Q.** Why pursue digital now?

**A.** With up to 20% of U.S. households with digital cameras, we were better able to predict the trends in digital substitution and film consumption, and we real-

ized that the U.S. film business was not coming back.

**Q.** How will you fare in such a cutthroat business?

**A.** We've already built a \$1 billion consumer digital business in five years. It turned profitable in the third quarter, which speaks for itself.

**Q.** Some say you've overpaid for recent deals.

**A.** We set goals for return on capital that we and the board monitor. Everything that we buy adds to what we already have. We didn't jump out and buy a dry cleaner.

Kodak CEO Daniel Carp



### Update

Last July we argued that the wisdom of investing legend Benjamin Graham never goes out of style, and we adapted his stock-picking methods to find winning investments. So does the father of value investing still have his mojo? You bet. The portfolio's up 31% vs. the S&P 500's 12%. Of six picks, five rose more than 20%. Electronics retailer **Circuit City (CC)** rose 89%. Only energy company **El Paso (EP)** fell, losing 20%. The other results: disability insurer **UnumProvident (UNM)**, up 24%; bond insurer **MBIA (MBI)**, up 21%; restaurant chain **IHOP (IHP)**, up 31%; and builder **Centex (CTX)**, up 44%. ■ El Paso, MBIA and UnumProvident still pass Graham's value screen. Demand for MBIA's insurance continues to rise, and a better economy usually means fewer disability claims, a plus for UnumProvident. But El Paso's earnings haven't rebounded as expected, and it has sold choice assets. It's a potentially dangerous cycle. We'd sell and move on. —STEPHEN GANDEL



Clockwise from top: Greg Goh/Gally Images; Annie Warren; Doug Kanter/Bloomberg News