Introduction

The *Santa Rally* (or Christmas Rally) is something that is talked about in the weeks before Christmas each year. But exactly what is the so-called *Santa Rally*? And can we take advantage of it when it occurs? Or perhaps the term *Santa Rally* is used for other reasons?

This Article in Brainy's series on Share Trading and Investing (number ST-6320) discusses the *Santa Rally* notion, including the original strict definition, and a discussion of why it might be discussed more often these days.

NOTE: This information is for general education only. It does NOT include a recommendation to take any action, nor make any investments. One should always consult a properly trained, qualified and experienced professional before undertaking any investment.

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Overview

In the weeks leading up to the Christmas period each year it is not uncommon to hear people talk about the *Santa Rally*. Most of the people who initiate this discussion are the media commentators or share brokers and analysts, who perhaps have something to gain from talking about it — many people are always interested to hear this type of news story.

At around Christmas time in any year, if retail investors around the world thought that a Santa Rally might be getting under way, the excitement and enthusiasm might build and many would feel compelled to participate in the rally, and rush in and buy some shares — this is the underlying emotion of greed that tends to drive many share market purchase decisions.

However, the sceptics amongst us might suggest that perhaps the notion of a *Santa Rally* was actually devised by some Wall Street heavies to falsely promote participation in the markets. Could this be true? We can’t say for sure.

Santa Rally — definition

Depending on your reference source, there are several definitions for the term *Santa Rally*. However, most of them are close to what is reputed to be the original definition from Yale Hirsch.

The Yale Hirsch definition — The term *Santa Rally* is reputed to be attributed to Yale Hirsch, editor in chief of the Stock Trader's Almanac, in 1972. His definition reads as follows:

> *"... the last five trading days of the year plus the first two of the New Year."*

Hirsch also said that the S&P500 averaged a 1.5 percent gain for that 7-day window since 1950. He offers an explanation as a buying bias by the professionals after end-of-year tax loss selling. Note here that the original studies and definition referred to the S&P500 index (ie. Standard & Poor's index of the top 500 stocks on the New York Stock Exchange). Also that these observations were for the period from 1950 until 1972 — some 22 years. It could be arguable whether the phenomenon might also apply to other indexes, other markets, and later time periods.

Also note that this definition refers to a 1.5 percent gain in the index. According to classical technical analysis, if we consider a *rally* as an *uptrend*, then we are looking for higher peaks and higher troughs. According to the strict definition of a *trend*, is it possible to have a 1.5 percent gain over 7 trading days with an uptrend NOT in place? Perhaps we need to be careful about how we classify market movements for the purpose of spotting a *Santa Rally*.

And, how do we know if a Santa Rally is under way? Well, we don't! We won't know if a Santa Rally took place until the end of the 7 day period and we check the price increase over the period.

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