

What Is the Santa Claus Rally?

Description

I wouldn't be surprised if we don't experience a Santa Claus rally this year. The Canadian stock market has pretty much rallied through the year.

What exactly is the Santa Claus rally? *Investopedia* describes a Santa Claus rally as “a sustained increase in the stock market that occurs in the last week of December through the first two trading days in January.”

Since the Santa Claus rally doesn't necessarily happen every year, and it describes a phenomenon that only occurs for a short time, *if* it happens, there's really no need to overly focus on it.

The Santa Claus rally is already happening for these TSX stocks!

That said, I wouldn't argue if someone said the Santa Claus rally is already happening ... at least to these stocks. There are more than a handful of quality stocks that are trading near their 52-week highs right now. They include big Canadian bank stocks like **Bank of Montreal**, **Bank of Nova Scotia**, and **TD Bank**; grocery stores like **George Weston**, **Loblaw**, and **Metro**; and regulated utilities like **Fortis**, **Emera**, and **Hydro One**. And there are others, including **Constellation Software**, **Dollarama**, **Nutrien**, **Rogers Sugar**, and **Tricon Residential**. All of the above are solid businesses.

Shareholders of Nutrien should pay close attention to it, though, because the company's results partially rely on commodity prices of potash, nitrogen, and phosphate, which will be volatile based on supply and demand. Right now, everything is looking too rosy for Nutrien. The other stocks are probably a hold at current levels, unless you're an active investor.

These cheap TSX stocks are out of favour with Santa (for now)

While I've listed a bunch of solid stocks that are participating in the Santa Claus rally, many others are out of Santa's favour right now. Some of the following stocks are trading near 52-week lows. Others have had major [corrections](#) that are the opposite of being in a rally.

They include renewable utilities like **Brookfield Renewable**, **Northland Power**, and **Innervex Renewable Energy**, tech stocks like **Enghouse Systems**, [Lightspeed](#), and **Nuvei**, and precious metal stocks like **Kinross Gold** and **Yamana Gold**. Notably, as of writing, precious metal stocks popped meaningfully on Thursday and could be worth a closer look. Continuing with the list, we have weed stocks **Canopy Growth** and **Tilray**, and other stocks **Boyd Group**, **Quebecor**, and **Ballard Power Systems**.

There are different reasons that stocks don't participate in the Santa Claus rally. Many of these are

stocks that have grown at extraordinary rates previously. Oftentimes, the selloffs are due to a combination of valuation contraction and slower growth.

The Foolish investor takeaway

The lists are not exhaustive, for sure. However, it goes to show that it's a market of stocks. And stocks take turns going in and out of favour. Therefore, don't count on a Santa Claus rally in your stocks. Instead, aim to buy solid businesses when their stocks are depressed. And don't get too excited when things go well for your stocks.

Always write a solid investment thesis in a short paragraph for each of your buys so that you can refer to it to see if it plays out. Remember that even great businesses can stumble, and it takes time for things to work out again.

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