Late Christmas Gift: Why Stocks Could Soar in January

Description

You wouldn't know it by looking at the markets today, but stocks have a chance of absolutely crushing it in January.

This December has seen a steep selloff in stocks. All North American indexes — the TSX Index, S&P 500, NASDAQ-100, etc. — have fallen. Tech stocks, as measured by the NASDAQ, have been battered more than others, as they stand to lose out to Federal Reserve rate hikes. Value stocks have fallen somewhat as well, though, as the Omicron variant has increased their risks. Bank stocks in particular could fail to capitalize on higher interest rates if Omicron causes their PCLs to soar once more.

Given all of these massive risk factors, why am I saying that stocks could rise in January?

Simply, the current risk factors are temporary. The Omicron variant will eventually pass, and next year's interest rate hikes are not going to be steep enough to make tech stocks worthless. Those who buy when everyone else is freaking out will be richly rewarded. With that in mind, here are two reasons why stocks could rise in January.

Cash on the sidelines

Recently, **Goldman Sachs** put out a report saying that large investors were sitting on unprecedented amounts of cash. According to Goldman, investors put $43 billion in money market funds in one week — a record. The seven-week total of $226 billion in inflows was a record as well. All of this money sitting on the sidelines could eventually be put back into stocks, sending prices higher.

Now, this doesn't guarantee that the money *will* go back into stocks. As **Fischer Investments** pointed out, the money that is now in treasuries could just stay there — there's no guarantee that excess cash will be invested in stocks. However, when we consider my second point, it starts to look likely that the cash will eventually go into the stock market.

Tax-loss harvesting

If the investors now switching from stocks to cash are tax-loss harvesting, then there's a good chance they'll be back in January.

Tax-loss harvesting is a strategy where you sell a losing stock at the end of the year to lower your taxes. Let's imagine that you were holding a large position in **Shopify** (TSX:SHOP)(NYSE:SHOP) stock. It's an ultra-high growth tech unicorn that grew at +90% during the 2020 COVID lockdowns and whose stock has a 95% CAGR return. As you can imagine, you might have to pay a lot of taxes on SHOP if you sell at the end of the year. But if you were also sitting on losses from a dud like **Canopy Growth**, you could sell those shares too and lower your tax rate.

Rich investors use tax-loss harvesting all the time. If you have a high marginal tax rate — like rich people do — it can really pay off. If big investors have been tax-loss harvesting this December, then their rush to cash may not indicate bearishness. In that case, they'll be right back in the markets in January.

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3. TSX:SHOP (Shopify Inc.)
4. TSX:WEED (Canopy Growth)

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