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Market theory predicts an up year for stocks will follow a January increase in the S&P 500

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NEW YORK — With the Dow Jones industrial average on track for its best January since 1989 and the Standard and Poor's 500 off to its fastest start since 1997, one of Wall Street's best-known and most-accurate prediction tools, dubbed the "January barometer," is flashing a green light for stocks.

This "early-warning signal" was devised in 1972 by Yale Hirsch of the Stock Trader's Almanac. Hirsch, a proponent of seasonal trading strategies, coined the expression, "As the S&P 500 goes in January, so goes the year." In short, an up January typically leads to an up year; a down January portends weakness.

While there's no guarantee what happens in the first month of a new year will continue for the remaining 11 months, history is on the side of investors, as is old-fashioned market momentum.

Since 1950, the January barometer has registered only seven "major errors." The last time gains in January gave way to a significant decline for the year was during the 2001 bear market, when a 3.5 percent gain for the S&P 500 evaporated and it ended down 13 percent, Almanac data show.

The market's early gains this year have been driven by diminishing policy risk now that the so-called "fiscal cliff" of tax increases and automatic spending cuts was avoided and the debt ceiling debate has been put on hold until May.

Ridding the market of uncertainty has been the catalyst for a transition in investor sentiment from pessimism to optimism, said Frank Holmes, CEO of U.S. Global Investors.

"What's missing," Holmes said, "is all the storm clouds and hand-wringing over fiscal policy."

But Jonathan Golub, strategist at UBS, isn't sure an up year for stocks in 2013 is a slam dunk. He said investors remain defensive despite the market's recent ascent.

Corporate earnings, he added, remain challenged. What's more, he worries that the don't-worry, be-happy talk following the near-miss of the fiscal cliff will shift to a more sober dialogue later in the year on whether the U.S. economy, which is still weighed down by fiscal challenges, will be able to post meaningful growth in the future.