The Impact of Retail Investors' Capital Allocation at the Beginning of the Year on the January Effect in A-Shares

Jingyi Huang

School of accounting, Southwestern University of Finance and Economics, Chengdu, Sichuan 610000
42313096@smail.swufe.edu.cn

Abstract. Based on the perspective of behavioral finance, this paper focuses on the internal relationship between retail investors' venture capital allocation behavior at the beginning of the year and A-share "January effect". Combined with the market characteristics dominated by A-share retail investors, it is pointed out that there are many studies to explain the formation mechanism of "January effect" from the macro market environment or institutional behavior level, pay insufficient attention to the core driving factor of retail micro capital allocation behavior, and do not clarify the transmission path between retail behavior and market anomalies. As a result, the micro-level formation logic of this anomaly remains insufficiently explored, leaving a clear research gap. This paper uses 2018-2024 A-share panel data, takes January turnover rate to measure retail investors' early-year capital allocation, and conducts empirical analysis via fixed-effects regression and grouping tests. The study found that (1) the intensity of risk capital allocation of retail investors at the beginning of the year (measured by the January turnover rate) was significantly positively correlated with the monthly excess return of individual stocks; (2) The January effect of the high-allocation group is more pronounced among small-cap and growth stocks (replacing the grouping with January yield). This study provides a new perspective for understanding the micro formation logic of A-share "January effect", and the relevant conclusions can provide reference for retail investors to optimize the allocation of funds at the beginning of the year.

Keywords: Behavioral Finance, Retail Investors, Turnover Rates, The January Effect, Stock Market Volatility.

1 Introduction

As a typical seasonal market anomaly, the January effect in the A-share market has been confirmed by many studies, but the existing interpretation framework is difficult to adapt to the unique market structure of A-share retail investors accounting for more than 60%. Traditional theories such as "tax loss harvesting" and "window dressing effect" come from mature markets, which can not fully explain the characteristics of January effect of a shares; Although some studies examine the driving effect of liquidity preference, they mainly focus on institutional liquidity adjustments, rarely

© The Author(s) 2026
L. C. Yoong (ed.), *Proceedings of the 2026 2nd International Conference on Financial Innovation and Marketing Management (FIMM 2026)*, Advances in Economics, Business and Management Research 408,
https://doi.org/10.2991/978-94-6239-801-6_40

address the seasonal allocation characteristics of retail funds, and overlook the core micro-level variable of retail capital allocation [1]. The limitations of the existing literature can be summarized in two main respects: first, most studies focus on the macro market environment or corporate fundamentals, and the internal relationship between retail micro behavior and market anomalies is insufficient, especially the lack of in-depth analysis of how retail trading behavior affects the transmission path of asset pricing through capital flows [2]. Second, insufficient attention has been paid to the impact of scenarios such as "year-end bonus payment" and "psychological account reconstruction" at the beginning of the year on retail risk preference and trading decisions, resulting in an insufficient understanding of the micro logic of the January effect, and existing studies have focused on the January emotional effect of the U.S. stock market, and there are still shortcomings in the research on the dominant characteristics of A-share retail investors [3].

In view of the above research gap, this study focuses on two core issues: first, whether the intensity of capital allocation of retail investors at the beginning of the year (measured by the January turnover rate) significantly affects the January excess return of individual stocks; The second is whether the impact is heterogeneous under different stock characteristics (scale, growth attributes) and allocation intensity. In order to answer the above questions, this study uses the panel data of A-share Shanghai and Shenzhen stock markets from 2018-2024 to test the main hypothesis (controlling individual heterogeneity) through panel fixed effect regression, combined with grouping test to verify heterogeneity (high and low allocation group, small cap/large cap stocks, growth/value stocks), and carries out robustness test through variable replacement, sample elimination and other methods to ensure the reliability of the research conclusions.

The innovation of this study is reflected in two aspects: first, the "January turnover rate" is used as an alternative indicator of the intensity of capital allocation of retail investors at the beginning of the year, which provides both operational and scientific measurement ideas for similar studies [4]. Second, focus on the special time node at the beginning of the year, deeply analyze the impact of the seasonal characteristics of retail capital allocation on the January effect, and enrich the theoretical explanation of the January effect in emerging markets.

2 Theoretical Analysis

2.1 Behavioral Finance and Irrational Behavior of Retail Investors

From the perspective of behavioral finance, retail investors' decision-making is vulnerable to cognitive biases and emotional fluctuations such as overconfidence, mental accounting, and confirmation bias, which are further magnified by the concentration of capital inflows, the restart of annual investment plans and the seasonal rise of market sentiment at the beginning of the year. According to the theory of "mental accounting" (Thaler, 1985), retail investors often classify the year-end bonus into an "investment account" independent of daily savings, which has higher

risk tolerance and lower loss aversion, thus prompting them to actively increase the allocation of risky assets. This behavioral logic is positively associated with greater risky-asset allocation and higher trading activity at the beginning of the year [5]. At the same time, investor sentiment has a significant driving effect on retail trading, and its trading decisions are more vulnerable to sentiment contagion in the market [6]. In addition, cognitive biases such as "overconfidence" and "confirmation bias" will lead retail investors to ignore potential risks when they concentrate on entering the market at the beginning of the year, and further strengthen the impact of capital allocation on stock prices [7].

2.2 Seasonal Anomalies of the January Effect

The January effect is a typical seasonal anomaly in the financial market, the core performance of which is that the stock return in January is significantly different from that in other months, usually accompanied by the rise of stock prices and the increase of excess returns of individual stocks. Existing studies have confirmed its universality in many national and regional markets, and its theoretical interpretation covers traditional market mechanisms (such as tax policy), liquidity preferences and behavioral finance [1]. As the core research object of this paper, the existence of the January effect provides a clear analytical framework for discussing the impact of retail capital allocation on seasonal returns in the market, and its "seasonal" and "excess returns" characteristics are also highly consistent with the time node of retail capital flows at the beginning of the year.

2.3 Rationality of Turnover Rate as a Proxy Index for Retail Capital Allocation

The core value of turnover rate is to directly reflect the transmission process of "transaction willingness, capital flow, asset pricing": a high turnover rate corresponds to the rapid flow of funds between assets, while a low turnover rate means capital remaining tied up in positions [4]. For the A-share market, the unique significance of the turnover rate lies in the "dominance of retail trading". As retail investors account for more than 60%, their trading behavior is the main driving factor for the fluctuation of turnover rate [8]. This feature enables the turnover rate in January to effectively represent the capital allocation intensity of retail investors at the beginning of the year, and to capture the activity and allocation dynamics of retail funds at the beginning of the year.

2.4 Research Core Mechanism

The core mechanism constructed in this paper is as follows: at the beginning of the year, the dual scenarios of year-end bonus payment and annual investment planning promote retail investors to reconstruct their psychological accounts and form independent investment accounts with higher risk tolerance. At the same time, market optimism strengthens, further pushes up their risk preference, and then promotes the

concentrated inflows of funds to the stock market. This allocation intensity can be captured by the turnover rate in January. Retail investors' preference for small-cap and growth stocks further drives demand for these stocks. The core reason is that retail funds are limited, the threshold of small cap stocks is low and volatile, which is in line with their short-term speculative needs, while growth stocks are in line with retail investors' preference for high-growth sectors due to performance growth expectations and valuation premium space, and ultimately contribute to the formation of monthly excess returns of individual stocks [9].

3 Empirical Research

3.1 Data Sources and Screening

The data in this paper are derived from the monthly trading data of A-share Shanghai and Shenzhen Stock Exchanges from 2018 to 2024, totaling 29002 sample observations. The core indicators include: securities code (Stkcd), trading month (Trdmnt), monthly stock return considering cash dividend reinvestment (Mretwd_Jan), January turnover rate (Dturn_Jan), monthly circulation market value (Msmvosd), monthly stock trading amount (Trade_Amt), monthly trading days (Trade_Days), and whether to exclude Beijing Stock Exchange (IsNotBSE).

Data screening follows three principles: excluding Beijiao stock exchange stocks (IsNotBSE=1); Only January observations are retained to ensure consistency in the time dimension (focus on the theme of January Effect Research); Excluding the samples with missing core indicators (monthly excess return of individual stocks, monthly turnover rate, logarithm of individual stock size, monthly trading amount of individual stocks, monthly trading days).

3.2 Variable Setting

Explained Variable (y) - Monthly Excess Return of Individual Stocks (ER_Jan). The calculation formula is "Excess return is computed as the January return of each stock minus the January return of the CSI (China Securities Index) 300 index". Among them, the January return of individual stocks adopts the monthly return of individual stocks (Mretwd_Jan) considering the reinvestment of cash dividends, and the January return of Shanghai and Shenzhen 300 index is obtained through Oriental Wealth Network to exclude the impact of overall market volatility.

Explanatory Variable (x) - January Turnover Rate (Dturn_Jan). As a proxy indicator of the intensity of risk capital allocation for retail investors at the beginning of the year. The basis for choosing this indicator is that the proportion of A-share retail transactions is high, the fluctuation of turnover rate is mainly driven by retail behavior, and the turnover rate in January directly reflects the activity and allocation intensity of retail funds entering the market at the beginning of the year [8].

Control Variables. Considering the impact of stock characteristics on yields, three core control variables are selected:

1. Size_Ln - the natural logarithm of monthly circulation market value (Msmvosd);

2. Log of monthly stock trading amount (Ln_TradeAmt): there are extreme values in the raw data of monthly stock trading amount (Trade_Amt), and natural log processing (LN(Trade_Amt+1))is taken to control the interference of individual stock liquidity scale on yield (liquidity premium theory shows that the higher the trading amount, the better the liquidity, which may correspond to higher excess returns);

3. Monthly trading days (trade_days): reflect the actual tradable days in January, and control the impact of time constraints such as holidays on trading activity and yield (the more trading days, the higher the efficiency of capital turnover, which may increase the monthly excess return).

3.3 Research Methods and Model Construction

Panel Fixed Effect Regression. Using panel fixed effect regression to test the main hypothesis H1 (the intensity of capital allocation of retail investors at the beginning of the year is significantly positively correlated with the monthly excess return of individual stocks), this study controls the interference between individual heterogeneity and other variables, and construct a model:

$$ER_{i,t} = \alpha + \beta_1 Dturn_Jan_{i,t} + \beta_2 Size_Ln_{i,t} + \beta_3 Ln_TradeAmt_{i,t} + \beta_4 Trade_Days_{i,t} + \mu_i + \varepsilon_{i,t} \quad (1)$$

Among them, $ER_{i,t}$ is the excess return of individual stocks I in January of year t; $Dturn_Jan_{i,t}$ is the turnover rate of individual stock I in January of year t; $Size_Ln_{i,t}$ is the logarithm of the circulation market value of individual stock I in January of year t; $Ln_TradeAmt_{i,t}$ is the logarithm of the trading amount of individual stock I in January of year t; $Trade_Days_{i,t}$ is the trading days of individual stock I in January of year t; μ_i is individual fixation; $\varepsilon_{i,t}$ is a random error term.

Heterogeneity Test. In order to verify whether there is heterogeneity in the impact of retail capital allocation on the January effect at the beginning of the year, combined with research assumptions H2 (the impact is more significant in small cap stocks), H3 (the impact is more significant in growth stocks) and H4 (the impact is more significant in the high allocation group), combined with the law of retail investment decision-making, the size of individual stocks and the differences in growth attributes, three types of grouping variables are set as the basis for the heterogeneity test, and grouping regression is carried out to compare the significance and size differences of the core explanatory variable (Dturn_Jan) coefficient. The grouping variables are set as follows:

(1) High and low allocation group: bounded by the median of the explanatory

variable "January turnover rate (Dturn_Jan)", it was divided into high allocation group (greater than the median) and low allocation group (less than or equal to the median) to test the heterogeneity of allocation intensity;

(2) Small cap stocks/large cap stocks: Based on the median of "size_ln", it is divided into small cap stocks and large cap stocks to test the heterogeneity of individual stock size;

(3) Growth stocks/value stocks: Taking "January stock return (mretwd _jan)" as an indicator, it is divided into growth stocks (yield higher than the median) and value stocks (yield lower than or equal to the median). High yield stocks in January are more likely to be regarded as "growth potential stocks" by retail investors. Its stock price elasticity is consistent with the characteristics of growth stocks, testing the heterogeneity of growth attributes of individual stocks.

Robustness Check. Two methods were used to verify the reliability of the results: The explanatory variables were adjusted and the log form of January turnover rate (LN(Dturn_Jan+1) was used o reptlace the original index; Abnormal years are excluded, and the 2020 sample affected by the epidemic is excluded before regression.

3.4 Empirical Results and Analysis

Descriptive Statistics. The descriptive statistical results of this empirical study are shown in Table 1, and the sample coverage is good, which can effectively reflect the market characteristics of a shares in January 2018-2024.

Table 1. Statistical description

Name	sample size	minimum	maximum	mean	Standard deviation	median	unit
Trade_Amt	29002	81.84	265191.01	33359.09	78490.02	13035.96	million yuan
Trade_Days	29002	1.000	22.000	19.361	2.711	20.000	days
Msmvosd	29002	21.27	26583.41	1343.53	5990.51	369.03	million yuan
Mretwd_Jan	28863	-0.678	2.946	-0.047	0.142	-0.047	%
Dturn_Jan	29002	0.000	11.521	0.512	0.724	0.291	%
CSI300_Jan	29002	-0.076	0.074	0.004	0.060	0.027	%
Size_Ln	29002	9.965	21.701	15.247	1.310	15.121	log market value

Correlation Analysis. The present study this paper conducts Pearson correlation tests among the dependent variable, the key explanatory variable, and the control variables (SeeTable 2). The results show that the correlation coefficient between the January

turnover rate of the explanatory variable (Dturn_Jan) and the January excess return rate of the explained variable stocks (ER_Jan) is 0.060, and the correlation between Dturn_Jan and ER_Jan is significantly positive at the 1% level. It preliminarily verifies the research hypothesis H1, that is, there is a positive correlation between the capital allocation intensity of retail investors at the beginning of the year and the January excess return of individual stocks. At the level of control variables, the correlation coefficient between Size_Ln and ER_Jan is −0.194, significant at the 1% level, which is in line with the classical "scale effect" theory, that is, the smaller the size of individual stocks, the higher the excess return; The correlation coefficient between trading days (Trade_Days), trading amount (Trade_Amt) and ER_Jan is 0.031 and 0.236, respectively, and they are significantly positively correlated at the 1% level, indicating that the more trading days in January and the higher the trading amount of individual stocks, the easier it is to increase its excess return.

Table 2. Pearson correlation test

	Dturn_Jan
ER_Jan	0.060**
Size_Ln	-0.194**
Trade_Days	0.031**
Trade_Amt	0.236**

Note: dependent variable = ER_Jan ; ** p<0.01

Benchmark Regression Results. To ensure the robustness of the findings, this study employs three panel data models for regression analysis, namely the Pooled OLS (POOL) model, Fixed Effects (FE) model, and Random Effects (RE) model. The fixed-effects estimates show that the coefficient of the explanatory variable dturn_jan in January is significantly positive at the 1% level in the three models, and the coefficient under the FE model is 0.046 (t=6.587), indicating that after controlling individual heterogeneity (See Table 3). A one-unit increase in retail investors' capital allocation intensity at the beginning of the year is associated with a 0.046 increase in ER_Jan. The study assumes that H1 is valid, that is, the intensity of venture capital allocation of retail investors at the beginning of the year is significantly positively correlated with the monthly excess return of individual stocks. This trading behavior of retail investors has a significant impact on market returns, which is consistent with the research conclusion in experimental finance that market reaction is driven by investor behavior [10].

Table 3. Summary of panel model results

Item	POOL model	FE model	RE model
Intercept	-0.126**	-0.324**	-0.129**
	(-6.247)	(-5.210)	(-6.330)
Dturn_Jan	0.033**	0.046**	0.034**
	(5.546)	(6.587)	(5.678)

Size_Ln	0.024**	0.036**	0.024**
	(22.855)	(9.567)	(22.698)
Trade_Amt	-0.000	0.000	-0.000
	(-0.525)	(0.842)	(-0.413)
Trade_Days	-0.016**	-0.016**	-0.016**
	(-31.704)	(-32.758)	(-31.999)
R^2	0.181	0.163	0.181
R^2(within)	0.181	0.186	0.182
Sample size	11699	11699	11699
Test	F (4,11694)=5 12.271,p=0.000	F (4,9444)=360.409,p =0.000	$\chi^2(4)$=2059.802, p=0.000

Note: dependent variable = ER_Jan; ** p<0.01 The value of T in brackets

Grouping Test Results. The subgroup regressions support H2 - H4 (See Table 4 - Table 9): the Dturn_Jan coefficient of small cap stocks group is significantly greater than that of large cap stocks group, assuming that H2 is valid; The coefficient of growth stock group is 0.062 and significant at 1% level, while the coefficient of value stock group is negative and not significant, assuming that H3 is valid; The coefficient of high allocation group is 0.027 and significant at 1% level, while the coefficient of low allocation group is negative and not significant, assuming that H4 is valid.

Table 4. Summary of panel model results of small cap stocks

Item	POOL model	FE model	RE model
Intercept	0.138**	0.080*	0.138**
	(7.615)	(2.164)	(7.615)
Size_Ln	0.013**	0.017**	0.013**
	(12.107)	(7.352)	(12.107)
Trade_Amt	0.000**	0.000*	0.000**
	(4.421)	(2.569)	(4.421)
Trade_Days	-0.020**	-0.021**	-0.020**
	(-50.112)	(-52.486)	(-50.112)
Dturn_Jan	0.018**	0.034**	0.018**
	(5.946)	(8.772)	(5.946)
R^2	0.198	0.191	0.198
R^2(within)	0.222	0.226	0.222
Sample size	19418	19418	19418
Test	F (4,19413)=724.803,p =0.000	F (4,15557)= 791.139,p=0.000	$\chi^2(4)$=2899.211, p=0.000

Note: dependent variable = ER_Jan; * p<0.05 ** p<0.01 The value of T in

Table 5. Summary of panel model results of large cap stocks

Item	POOL model	FE model	RE model
Intercept	-0.926**	-1.516**	-1.000**
	(-4.488)	(-2.744)	(-4.213)
Size_Ln	0.037**	0.067*	0.041**
	(3.342)	(2.406)	(3.262)
Trade_Amt	-0.000*	-0.000	-0.000*
	(-2.427)	(-1.717)	(-2.231)
Trade_Days	0.010**	0.011**	0.010**
	(5.126)	(6.197)	(5.558)
Dturn_Jan	0.331**	0.289*	0.346**
	(3.467)	(2.322)	(3.271)
R^2	0.185	0.112	0.184
R^2(within)	0.194	0.207	0.196
Sample size	205	205	205
Test	F (4,200)=16.998,p=0.000	F (4,149)=12.407,p=0.000	$\chi^2(4)$=65.046, p=0.000

Note: dependent variable = ER_Jan; * p<0.05 ** p<0.01 The value of T in

Table 6. Results of robust regression analysis of growth stocks (n=9325)

	Regression coefficient	standard error	t	p	95% CI	R2	R2 adjustment	F
Constant	-0.022	0.011	-2.033	0.042*	-0.044 ~ -0.001	0.151	0.151	F (4,0)=415.928,p=0.000
Dturn_Jan	0.057	0.001	53.444	0.000**	0.055 ~ 0.059			
Size_Ln	0.006	0.001	9.030	0.000**	0.005 ~ 0.007			
Trade_Amt	0.000	0.000	12.387	0.000**	0.000 ~ 0.000			
Trade_Days	-0.003	0.000	-10.392	0.000**	-0.004 ~ -0.002			

Note: dependent variable = ER_Jan; * p<0.05 ** p<0.01

Table 7. Results of robust regression analysis of value stocks (n=19537)

	Regression coefficient	standard error	t	p	95% CI	R2	R2 adjustment	F
Constant	0.083	0.010	8.196	0.000**	0.064 ~	0.180	0.180	F (4,0)=1073.
Dturn_Ja	-0.015	0.001	-16.764	0.000**	-0.017 ~			

Size_Ln	0.008	0.001	14.860	0.000**	0.007 ~	842,p=0.000
Trade_Amt	-0.000	0.000	-5.905	0.000**	-0.000 ~	
Trade_Days	-0.015	0.000	-62.359	0.000**	-0.016 ~ -0.015	

Note: dependent variable = ER_Jan; ** p<0.01

Table 8. Summary of panel model results of high configuration group

Item	POOL model	FE model	RE model
Intercept	0.070*	0.155*	0.070*
	(2.497)	(2.517)	(2.497)
Size_Ln	0.027**	0.024**	0.027**
	(17.552)	(6.161)	(17.552)
Trade_Amt	0.000	-0.000	0.000
	(0.394)	(-0.274)	(0.394)
Trade_Days	-0.029**	-0.031**	-0.029**
	(-46.310)	(-47.074)	(-46.310)
Dturn_Jan	0.033**	0.040**	0.033**
	(9.614)	(8.493)	(9.614)
R^2	0.250	0.246	0.250
R^2(within)	0.287	0.289	0.287
Sample size	9812	9812	9812
Test	F (4,9807)=713.698,p=0.000	F (4,6340)=621.355,p=0.000	χ^2(4)=2854.792, p=0.000

Note: dependent variable = ER_Jan; * p<0.05 ** p<0.01 The value of T in

Table 9. Summary of panel model results of low configuration group

Item	POOL model	FE model	RE model
Intercept	0.113**	-0.236**	0.113**
	(6.789)	(-4.956)	(6.789)
Size_Ln	0.006**	0.025**	0.006**
	(6.711)	(8.731)	(6.711)
Trade_Amt	0.000**	-0.000	0.000**
	(3.014)	(-0.390)	(3.014)
Trade_Days	-0.013**	-0.012**	-0.013**
	(-29.863)	(-28.832)	(-29.863)
Dturn_Jan	-0.093**	0.141**	-0.093**
	(-7.921)	(7.705)	(-7.921)
R^2	0.176	0.056	0.176
R^2(withi	0.144	0.170	0.144

Samplesize	9811	9811	9811
Test	F (4,9806)=299.611,p =0.000	F (4,6885)=270.234,p=0. 000	$\chi^2(4)$=1198.442, p=0.000

Note: dependent variable = ER_Jan; ** p<0.01 The value of T in brackets

Robustness Test Results. The robustness test of adjusting explanatory variables (log form of turnover rate) and excluding abnormal samples in 2020 shows that the core explanatory variables maintain a significant positive correlation at the 1% level in pool, Fe and re models, and the coefficient size is close to the benchmark regression results (See Table 10-11). This shows that the conclusion that the intensity of risk capital allocation of retail investors at the beginning of the year is significantly positively correlated with the monthly excess return of individual stocks is reliable, and is not affected by variable measurement methods and sample selection.

Table 10. Summary of panel model results after adjusting explanatory variables

Item	POOL model	FE model	RE model
Intercept	-0.129**	-0.327**	-0.133**
	(-6.477)	(-5.273)	(-6.608)
Size_Ln	0.024**	0.036**	0.024**
	(23.329)	(9.565)	(23.222)
Trade_Amt	-0.000	0.000	-0.000
	(-0.338)	(0.758)	(-0.258)
Trade_Days	-0.016**	-0.016**	-0.016**
	(-31.720)	(-32.955)	(-32.018)
Dturn_Jan	0.053**	0.083**	0.055**
	(5.973)	(7.695)	(6.174)
R^2	0.179	0.161	0.179
R^2(within)	0.179	0.185	0.180
Sample size	11699	11699	11699
Test	F (4,11694)=516.194 ,p=0.000	F (4,9444)=363.609,p=0. 000	$\chi^2(4)$=2077.238, p=0.000

Note: dependent variable = ER_Jan; ** p<0.01 The value of T in brackets

Table 11. Summary of results of panel model after excluding abnormal years (2020)

Item	POOL model	FE model	RE model
Intercept	0.072**	-0.003	0.072**
	(4.028)	(-0.080)	(4.028)
Size_Ln	0.014**	0.020**	0.014**
	(14.496)	(8.740)	(14.496)
Trade_Amt	0.000**	0.000**	0.000**
	(3.691)	(2.345)	(3.691)

Trade_Days	-0.018**	-0.019**	-0.018**
	(-41.555)	(-42.799)	(-41.555)
Dturn_Jan	0.014**	0.027**	0.014**
	(4.579)	(7.139)	(4.579)
R^2	0.157	0.150	0.157
R^2(within)	0.177	0.181	0.177
Sample size	17304	17304	17304
Test	F (4,17299)=559.432,p=0.000	F (4,13429)=614.059,p=0.000	$\chi^2(4)$=2237.727, p=0.000

Note: dependent variable = ER_Jan; ** p<0.01 The value of T in brackets

4 Discussion and Inspiration

4.1 Mechanism Interpretation of Empirical Results

The empirical results of this paper verify that the capital allocation behavior of retail investors at the beginning of the year is an important driving factor for the January effect in A-shares. Combined with the comparison of existing similar thematic studies, it can be seen that most of the existing studies explain the formation of the January effect of a shares from the perspective of institutional capital layout and macro policy orientation, while this paper focuses on the micro level of retail behavior, which complements some of the research conclusions focusing on investor sentiment. Overall, the January effect in A-shares is not driven by a single factor, but by the combination of macro environment, institutional behavior and retail micro decision-making, among which the irrational allocation behavior of retail investors at the beginning of the year is one of the key driving variables. Its underlying mechanism can be interpreted from two perspectives: the behavioral characteristics of retail investors and the differences in the attributes of individual stocks. The details are as follows: at the beginning of the year, the psychological account reconstruction and optimism of retail investors enhanced their risk preference and promoted the centralized inflow of funds into the stock market, while the market characteristics dominated by retail transactions made the turnover rate in January effectively reflect this allocation behavior; Small cap stocks and growth stocks have higher stock price elasticity, and the concentrated inflow of retail funds has a more obvious leverage effect on their stock prices, which eventually leads to more prominent January excess returns for such stocks. This conclusion clarifies the direct relationship between the seasonal behavior of retail investors' capital allocation at the beginning of the year and the market January effect, refines the transmission path of "investor sentiment capital allocation market anomaly", and provides a new perspective for understanding the formation logic of A-share January effect [2].

4.2 Practical Enlightenment

Implications for Retail Investors. Retail investors may restrain irrational investment behavior by setting an upper limit on the proportion of annual asset allocation. This can help avoid excessive allocation to high-risk assets driven by over-optimism and psychological account restructuring; In January investment, they should rationally view the excess returns of small cap stocks and growth stocks, formulate allocation strategies in combination with their own risk tolerance, rather than blindly chasing short-term fluctuations. At the same time, they can pay attention to the reasonable range of turnover rate, avoid excessive centralized allocation in stocks with high turnover rate, and reduce liquidity risk.

Implications for Regulators. Regulators should strengthen the education of retail investors, guide their rational decision-making, and reduce the impact of irrational trading on market stability [6]. At the same time, by improving the information disclosure system, they can reduce the information asymmetry between retail investors and institutions and alleviate the abnormal fluctuations caused by market anomalies. In addition, regulators can pay attention to the impact of seasonal capital flows on the market at the beginning of the year, timely introduce guiding policies, and maintain the smooth operation of the market.

5 Conclusion

5.1 Core Conclusion

Based on the panel data of A-share stocks from 2018 to 2024, this paper empirically tests the impact of retail capital allocation at the beginning of the year on the January effect, and draws the following conclusions:

The intensity of retail venture capital allocation at the beginning of the year (measured by the January turnover rate) is significantly positively correlated with the monthly excess return of individual stocks, which is an important micro factor driving the January effect of A-share;

This impact is heterogeneous, especially in the high allocation group, small cap stocks and growth stocks.

5.2 Theoretical and Practical Value

Theoretically, this paper supplements the micro driving mechanism of the January effect, verifies the impact of retail investors' seasonal capital allocation behavior on market anomalies, and enriches the application scenarios of behavioral finance related theories; In practice, it provides a reference basis for retail investors to optimize the capital allocation strategy at the beginning of the year and regulators to maintain market stability.

5.3 Future Outlook

Future research can be further expanded:Researchers incorporate more granular retail trading data (e.g., account-level net capital inflows, position structures, and risk preference scores disclosed by exchanges) and examine the impact of retail investor heterogeneity on capital allocation behavior; The regulatory variables are included to analyze the regulatory effect of market sentiment, policy environment and other factors on the core relationship; Extend the sample period and market coverage to verify the cross-market and cross-cycle applicability of the conclusions.

References

1. Liu, J.J.: January effect, Lunar New Year effect, and liquidity preference. Global Finance Journal **67**, 101164 (2025)
2. Chen, Z.D., Daves, P.R.: The January sentiment effect in the U.S. stock market. International Review of Financial Analysis **59**, 94–104 (2018)
3. Kliger, D.: Empirical behavioral finance. Journal of Economic Behavior and Organization **107**, 421–427 (2014)
4. Zhang, B., & Zhang, R.: Characteristics of Turnover and "Disappeared" Momentum Effect in Chinese Stock Market. China Journal of Economics **9**(4), 124–143 (2022)
5. Zhu, Y., Li, J.H., Zhuang, J.Y.: Thaler's Empirical Research on behavioral finance and its theoretical contributions. Advances in psychological science **27**(3), 439–446 (2019)
6. Feng, Z.Y.: Research on the impact of investor sentiment on stock market volatility - An Empirical Analysis Based on the Shanghai and Shenzhen 300 index. Time honored brand marketing **10**, 49–51 (2024)
7. Gao, H., Shi, D., & Zhao, B.: Does good luck make people overconfident? Evidence from a natural experiment in the stock market. Journal of Corporate Finance **68**, 101933 (2021)
8. Chen, Z.D., Schmidt, A., Wang, J.A.: Retail investor risk-seeking, attention, and the January effect. Journal of Behavioral and Experimental Finance **30**, 100511 (2021)
9. Bhamra, H.S., Dorion, C., Jeanneret, A., Weber, M.: High Inflation: Low Default Risk and Low Equity Valuations. The Review of Financial Studies **36**(3), 1192–1252 (2023)
10. Duffy, J., Rabanal, J.P., Rud, O.A.: Market reactions to stock splits: Experimental evidence. Journal of Economic Behavior and Organization **214**, 325–345 (2023)

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (http://creativecommons.org/licenses/by-nc/4.0/), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

