Monthly Commentary

November 23, 2015

"Good investors gather information, put that information into current and historical context, then make sound decisions."

'Seasonality' is one of the more closely watched financial market indicators. Part of the reason is that it is pretty easy. First you check the calendar. Then you check a financial market almanac. It is not unlike referencing The Farmer's Almanac when determining the best time to plant. And like The Farmer's Almanac, it is best utilized as an approximate, but inexact resource. The financial market almanac that we utilize is The Stock Trader's Almanac. It is as full of historical data as one could ever hope for, especially since the technological advancements that have stretched the limits of data mining to infinity and beyond. While we are very active in the financial markets, we do not trade individual stocks, and in reality, The Stock Trader's Almanac provide very little information on individual stocks while providing a wealth of data on stock markets, which suits us just fine.

Stock market seasonality can be useful both for identifying historically profitable times, and historically hazardous times. That being said, the exceptions can be so dramatic that it rarely justifies taking specific action. Consider it more like driving and seeing those orange barrels on the side of the road. The orange barrels don't mean you should slam on the brakes. They do mean that you should exercise more caution. The 'orange barrel' months for equity markets have historically been September and October. October has a bad reputation because of 1929 and 1987, which saw epic declines, as well as sharply lower days in 1989 and 2008. Statistically, however, October actually has been the seventh best month for the Dow Jones Industrial Average and the S&P 500 Index, going back to 1950.

Historically, September has actually been more problematic month for equities. It ranks last for the Dow Jones Industrial Average and the S&P 500 Index since 1950. It has been a down month 15 of the past 21 years. September tends to open strong and fade into the end of the month. This year, however, the market's most treacherous month thus far was August. It can be argued that over the years, changes in human behavior, accompanied by much faster access to information with corresponding developments in computer trading, must affect historical tendencies. It would be very hard for me to disagree. So how did September and October perform in 2015? For the S&P 500, September registered a -2.64% decline, while October posted a +8.28% gain. If you had opted to step away during these traditionally 'orange barrel' months you would have watched a net gain of over five percent slide past. Then, factor in trading expenses, potential income tax liabilities and, last but not least, decision-making hesitations. Ouch. So much for trading Seasonality!

The October rally effectively carried many indexes back into the trading range levels that had corralled prices the first 7 1/2 months of the year. That trading range was confirmed with a successful test of its lower levels after a pullback the first two weeks of November. Which, at this writing, leaves the S&P 500 Index at 2086, up +1.38% YTD. The Dow Jones Industrial Average is down -0.17%. The S&P 400 Mid Cap Index is down -0.06% YTD and the Russell 2000 Small Cap Index is down -1.99% YTD. On the international front, the S&P Europe 350 Index is down -1.05% YTD, while the MSCI Emerging Markets Index is down -10.79% YTD. Needless to say, while there has not been much money lost, it has been very difficult making money in equities in 2015.

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Bond markets have been experiencing similar results as they tango with equity market swings and volatility. The good news/bad news cycles for equities have only reinforced the bond markets' own trading ranges. Bond markets are not particularly fond of rapid rotations. The broad bond market indexes are hovering just north of a zero percent return for the year. Municipal bonds have had a better year and income tax pressures continue to mount, while high yield bonds have had the roughest time as a result of the decline in oil and commodity prices.

Circling back around to seasonality, November-December-January have historically been the three most profitable contiguous months of the year, ranking 3rd, 1st, and 5th respectively, month by month. Financial markets are generally kinder during the Holidays, so we believe that it is prudent to be selectively invested and increasingly diligent at this time.

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Sources: Bloomberg, Marketwatch.com, StockCharts.com