

Halloween Strategy

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

Halloween Strategy is an investment technique that incorporates seasonality for investing in equities. This begs the question, what is seasonality? Seasonality is a characteristic of a time series in which the data experiences regular and predictable changes that recur periodically, usually within a calendar year. Seasonality does not need to be exact. For example, the autumn season is accompanied by changes in the colors of the leaves. The exact colors and the exact days the changes occur can vary depending upon moisture and temperature. Autumn can linger or pass quickly, but it is a transition season between summer and winter in temperate weather zones.

The same tendencies can occur in equities markets. There are specific seasons when, historically, equities markets perform with a certain predictability. As in changes in weather seasons, there are factors which will influence the ‘colors and the timing’ and the transitions can linger or pass quickly. But market analysis, such as the past performance of the S&P 500 Index calculated monthly, does identify and verify that seasonality is a factor to consider when investing. With equity markets the seasons are generally broken down into just two, instead of four seasons, relative to the historical performances by month.

The most favorable six month season, historically, runs from the first of November through the end of April. In fact listed in order of their performance, the best six months of the year for the S&P 500 since 1950 have been December, November, April, March, July and January. Yes, the month of July is an outsider, but you can credit the patriotic effect. A listing of the least favorable six months since 1950, this time ranked by the worst down to the least worse, starts with September, then August, June, February, May, and finally October. Note that while October gets the bad rap, it is actually September that has been the most difficult month. For the S&P 500, October

actually sits in the #7 position with an average change of +0.9%, and has been positive 40 times versus negative 26 times.

Which brings us back to the Halloween Strategy. Halloween is the last day of the historically weaker half of the calendar year, and serves as the signal that the best half lies ahead. As with Autumn, there are no guarantees on how colorful or how long it will last. It may be warm or frigid, calm or windy, wet or dry. How does this translate to the equity markets? The parallels can be surprising. What has the “temperature” of the stock market been leading up to Halloween? It has actually been quite positive but not excessive. What about the “winds?” Market volatility has been exceptionally low and calm. And finally, what about “moisture?” Corporate earnings have been steady and recent national GDP numbers have been expanding. These appear to be favorable conditions.

In 2017, September and October were both positive months for the S&P 500 and for most all domestic and international equity indexes. Now we are entering the historically best two months of the year, although they too, can be surprising. A lot of factors can weigh in at the end of the year, but one of the strongest is momentum, and the momentum is very positive and strong. Year-to-date, the S&P 500 Index is up over +16%, the S&P MidCap 400 Index is up over +11%, and the S&P 600 SmallCap Index is up over +8%. Every domestic industrial sector we follow is in positive territory except energy, which has also recently bounced. International equities are posting even stronger numbers. Interestingly, even all of the fixed income indexes that we follow are also in positive territory, albeit not nearly as strong as equities. This is not the time to get tricky. This is the time to get involved. As surely as we will have our Autumn, we will eventually have our Winter. Until then, let’s enjoy the colors!

Edward D. Foy
Manager, SELECTOR Money Management
www.foynancial.com, Ed@foynancial.com
(800) 456-4380