SELECTOR Real-Time Money Management

Monthly Commentary

September 20, 2016

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

Into every road trip construction zones invariably appear. But the predictability of the September equity market construction zone is legendary. September holds the record for being the most notorious month of the year for all of the major domestic equity indexes. The DJIA, the S+P 500 Index, and the NASDAQ Index have had their most difficult performances in September going back to 1950. That's not to say that every September is a big fat loser. The DJIA has been positive 26 of the last 65 Septembers. But that's fewer than any other month of the year. That's also not to say the Septembers have been terribly costly. The average performance for all 65 of those Septembers has only been -0.7% for the DJIA, and -0.5% for the S&P 500 and the NASDAQ. Still, those are the worst average numbers of any month.

It's as though portfolio managers come back from Labor Day intent on some serious house cleaning. Actually, that's not far from the truth! Even though investing is a very, very long-term process, the calendar plays an important part in the cyclical nature of financial markets. U.S. publicly held corporations are required to disclose certain financial information on a quarterly basis. This information is carefully scrutinized by professional investors and investment firms, who in turn may make decisions to buy, sell, or hold securities of those corporations depending on how the numbers stack up. By the time September rolls around, half of the corporate year has been made public and the stock price in many cases reflects expectations for the final few months. Institutional investors are now positioning themselves, not for the 4th quarter of the year, but for the first half of the following year. Those stocks that have enjoyed good results often are rewarded by additional purchases. But those stocks that have disappointed may become more vulnerable to reductions or eliminations. Thus the 'house cleaning.'

Of course, there are a number of additional considerations, including the fact that this is an election year. Election years have historically been a little easier, even on Septembers. Since 1950 election years have only averaged a -0.4% decline for the DJIA, and -0.2% declines for the S&P 500 and the NASDAQ. The Russell 1000 Large Cap Index and Russell 2000 Small Cap Indexes have been positive on average during election years, scoring +0.2% and +0.7% gains in September. From our perspective this is a reminder that it is important, as always, to recognize the trends, the leadership, and the laggards. The trend is your friend. Stick with market leadership. Avoid relative weakness.

The long-term trends for equities remain positive. The leadership has shifted in recent months from large cap equities to midcap and smallcap equities. There has also been a significant shift away from growth style equities to value style equities. These shifts in leadership and style are making their marks in almost all of the portfolios that we monitor and manage. Additionally there has been movement away from traditionally defensive equity sectors, such as utilities and real estate, and towards more aggressive sectors, such as technology. We are seeing this technology push across sectors as diverse as computer hardware to telecommunications to biotechnology.

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One of the biggest positives of Septembers is that institutional investors tend to 'tip their hands' as they work to position themselves toward the year-end and the new year. We ran into a construction zone last week, but it wasn't too severe. We anticipate that the election year cycle, the long-term bull market trend, and annual seasonality will prove to be favorable for equity markets through the remainder of 2016.

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Sources: Bloomberg, Marketwatch.com, StockCharts.com