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October Almanac: Resist "Octoberphobia"

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October often evokes fear on Wall Street as memories are stirred of crashes in 1929, 1987, the 554-point drop on October 27, 1997, back-to-back massacres in 1978 and 1979, Friday the 13th in 1989 and the 733-point drop on October 15, 2008. During the week ending October 10, 2008, Dow lost 1,874.19 points (18.2%), the worst weekly decline in our database going back to 1901, in percentage terms. March 2020 now holds the dubious honor of producing the worst and third worst DJIA weekly point declines. The term "Octoberphobia" has been used to describe the phenomenon of major market drops occurring during the month. Market calamities can become a self-fulfilling prophecy, so stay on the lookout and don't get whipsawed if it happens.

But October has become a turnaround month — a "bear killer" if you will. Twelve post-WWII bear markets have ended in October: 1946, 1957, 1960, 1962, 1966, 1974, 1987, 1990, 1998, 2001, 2002 and 2011 (S&P 500 declined 19.4%). However, eight were midterm bottoms. Over the last 21 years, October's performance has been solid. Average gains over the last 21-years range from 0.9% by S&P 500 to 1.9% by NASDAQ. Small caps have still struggled though, with Russell 2000 gaining a modest 0.6%.

Post-election year October's are neither great nor bad since 1953, ranking mid-pack across DJIA, S&P 500 and NASDAQ with gains averaging from 0.9% (DJIA) to 1.4% (NASDAQ). DJIA has the best historical odds for gains having advanced in 12 of the last 17 post-election year Octobers. Despite the best average gain, NASDAQ

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Post-Election Year October since 1950

	Rank[1]	Avg %	Up	Down
DJIA	6	0.9	12	5
S&P 500	5	1.0	10	7
NASDAQ*	6	1.4	6	6

[1] *Based upon the average historical monthly performance of the indices in comparison to other months of the year.*
** Since 1971*

October Vital Stats (1950-2020)

	DJIA	S&P 500	NASDAQ
Rank[2]	7	7	9
# Up	42	42	27
# Down	29	29	23
Average %	0.5	0.8	0.6
4-Year Presidential Election Cycle Performance by %			
Post-Election	0.9	1.0	1.4
Mid-Term	2.6	2.7	3.1
Pre-Election	–0.4	0.2	0.3
Election	–1.0	–0.9	–2.2
Best & Worst October by %			
Best	1982 10.7	1974 16.3	1974 17.2
Worst	1987 –23.2	1987 –21.8	1987 –27.2
October Weeks by %			
Best	10/11/1974 12.6	10/11/1974 14.1	10/31/2008 10.9
Worst	10/10/2008 -18.2	10/10/2008 -18.2	10/23/1987 -19.2
October Days by %			
Best	10/13/2008 11.1	10/13/2008 11.6	10/13/2008 11.8
Worst	10/19/1987 –22.6	10/19/1987 –20.5	10/19/1987 –11.4
October 2021 Bullish Days: Data 2000-2020			
	5, 14, 21, 26, 28	5, 14, 18, 21 22, 28	5, 14, 21
October 2021 Bearish Days: Data 2000-2020			
	7, 13	7, 25	None

[2] *Based upon the average historical monthly performance of the indices in comparison to other months of the year.*
[3] *Based on the S&P 500 Rising 60% or more of the time on a particular trading day.*
[4] *Based on the S&P 500 Falling 60% or more of the time on a particular trading day.*

Inside

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actually has the worst record, declining in 6 of the last 12 post-election year Octobers. A 12.8% gain in 2001 boosts its average.

Should a meaningful decline materialize in October, it is likely to be an excellent buying opportunity, especially for any depressed technology and small-cap shares. October is also the end of the Dow and S&P 500 "Worst 6 Months" and NASDAQ "Worst 4 Months". Remain attentive for the *Stock Trader's Almanac* Seasonal Buy Signal which can occur anytime beginning October 1.

October Outlook: Market Likely Wards Off October's Curse?

Well. Seasonality is back. Everyone in the financial media has been talking about September seasonal weakness lately. And here we are in September and the market has sold off around the 5% or so we projected last month. And it did so in the notoriously treacherous week after September quarterly options and futures expiration.

Then, as expected, traders and fund managers bought the dip as they have throughout this bull market rally with the blessing of the Federal Reserve's continuing dovish tone and accommodative policy that they reinforced at the conclusion of the 9/21-22 FOMC meeting.

We do not expect stocks to succumb to the October curse this year. That doesn't rule out some downside disturbance, but we do not foresee an impending crash, massacre or big selloff of the sort that have given October it's dubious reputation as the jinx month. Many of the same geopolitical, political, fundamental and technical headwinds we highlighted last month remain, as well as some others, so another 5% or so pullback is possible as Wall Street still could suffer from chronic "Octoberphobia."

We've been doing this for decades and this pullback was prototypical end of Q3 window dressing and institutional selling. Several factors weighed on the markets, but most had been there all year. So why did the market sell off this month? Seasonality.

As you can see in the chart on page 3 of the updated S&P 500 One-Year Seasonal Pattern Since 1949, over the last 72 years and the more recent 33 years, late September weakness is apparent (noted by purple arrows) along with the October turn and strong year-end rally that runs through the Best Six Months that end in April.

Last year we had a November for the record books with a rally that continued beyond year-end into late April/early May as you can see in the green line. Then we suffered some usual May/June weakness, followed by a customary mid-year rally with the usual first half of July strength. August was unseasonably strong except for a brief correction mid-month and now September has delivered its vaunted selloff.

We've seen this September weakness before and expect this turnaround to continue with a strong potential for retest of the recent lows in October as is often the case with either a slightly higher or lower low — a higher low would clearly be more constructive.

So we stay our course, which we believe may avoid and may potentially capitalize on seasonal September weakness and jump on the October turn with the *Stock Trader's Almanac* MACD Best Six Months Seasonal Buy Signal. We believe the upcoming Best Six Month is likely to deliver like it did last year and year in and year out.

Nothing is perfect or works all the time and we've seen some bad Best Six Months over the years, but they have been few and far between (see page 54 of the *2021 Almanac*). The Best Months with MACD timing has trounced the Worst Months with a gain of 8.9% for DJIA vs. -0.4% (updated numbers from the *2022 Almanac* due out in October). Even over the past 12 years since the March 2009 bottom the Best Six Months have doubled the performance of the Worst Months.

In our opinion, there are several issues that could trigger an October slide. The Chinese Evergrande crisis seemed more like an excuse for the recent selloff and we suspect that the Chinese government will coordinate and control a solution there and curtail any fallout. There's the debt ceiling issue. We have been here before and Congress will likely wait until

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October Outlook: Market Likely Wards Off October's Curse?

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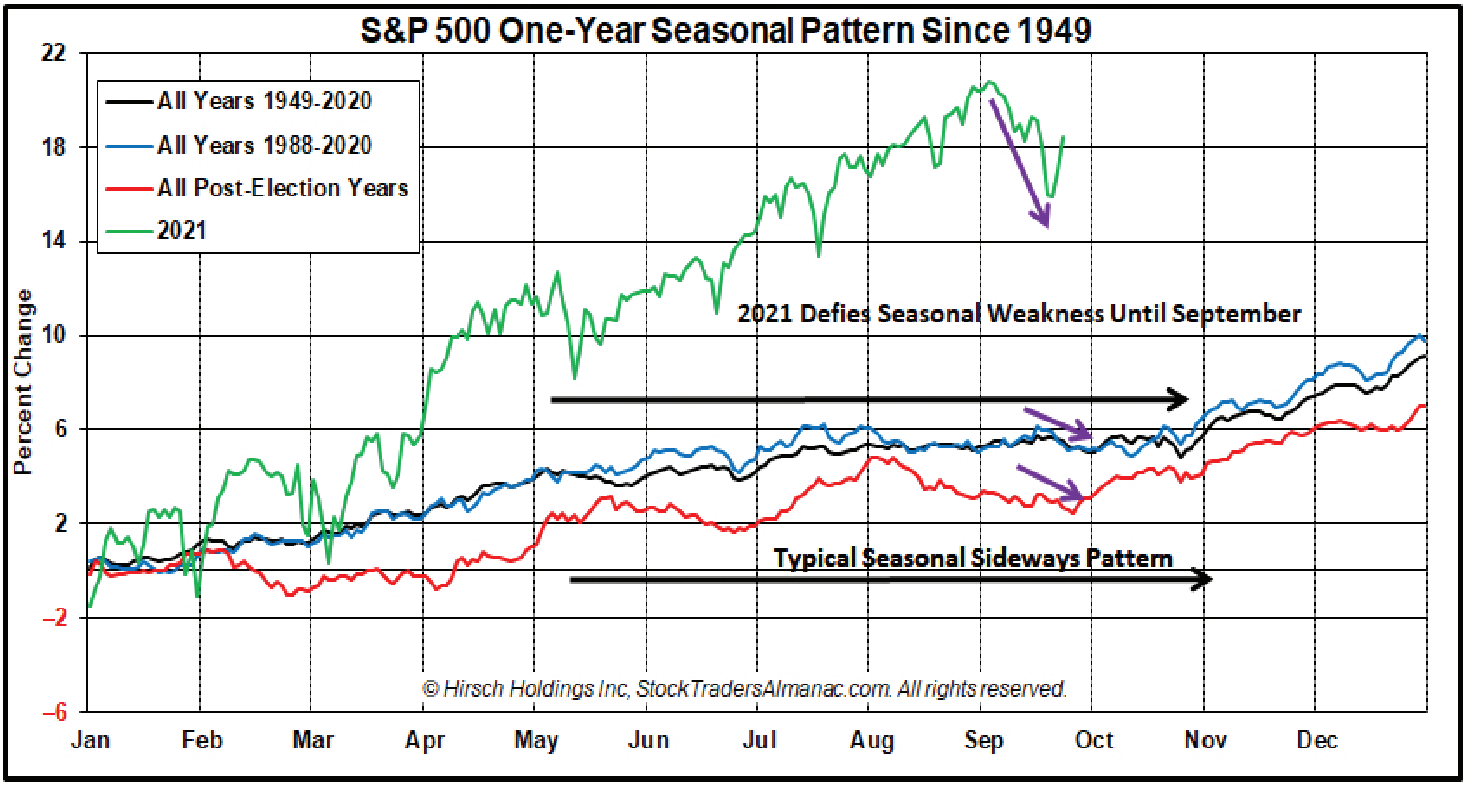
the 11th hour, but it is our view that they will raise it and not put the full faith and credit of the U.S. government at risk.

It is our view the tax increase many fear is looking less and less likely to pass as the proposal is being met with resistance from many camps and President Biden's approval ratings have slipped. Inflationary pressures are proving to be somewhat transitory. Yes, inflation will be increasing as it usually does, but in our opinion rampant inflation does not appear to be a concern.

Any increased chatter about the Fed raising rates sooner than later in 2022 is in our opinion the biggest risk to stock prices. Since the market has a history of October turnarounds, whatever it is that may trigger another bout of weakness in October, please don't react and get flushed out of the market. Instead, be ready to act on the next Best Six/Eight Months MACD Seasonal Buy Signal that can occur any time on or after October 1.



Index Definitions: The S&P 500 Index is an unmanaged composite of 500 large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. The Dow Jones Industrial Average ('DJIA') is an unmanaged composite of 30 widely held stocks. The NASDAQ Index is an unmanaged composite of the common stocks and similar securities listed on the NASDAQ Stock Market. The Russell 2000 Index is an unmanaged composite of the bottom 2,000 stocks in the Russell 3000 Index. The Russell 3000 Index is an unmanaged composite of the 3,000 largest publicly held companies incorporated in America as measured by total market capitalization. The Russell 2000 index is widely used by professional investors as a performance benchmark for small-cap stocks. You cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. The Wilshire 5000 is a market-capitalization-weighted index of the market value of all US-stocks actively traded in the United States. As of December 31, 2020, the index contained only 3463 components. The index is intended to measure the performance of most publicly traded companies headquartered in the United States, with readily available price data. Past performance does not guarantee future results.

Moving Average Convergence Divergence (MACD): A trend-following momentum indicator that shows the relationship between two moving averages of prices.

Santa Claus Rally: Discovered and named by Yale Hirsch in 1972 and published in the *1973 Stock Trader's Almanac*. Santa Claus tends to come to Wall Street nearly every year, bringing a short, sweet, respectable rally within the last five days of the year and the first two in January. This rally has been averaged 1.3% S&P 500 gain since 1969. Santa's failure to show tends to precede bear markets, or times stocks could be purchased later in the year at much lower prices.

Triple Witch Week: Is the week containing the third Friday in March, June, September and December when stock options, index options and index futures expire on Friday.

January Effect: Is the tendency of small-cap stocks to outperform large-cap stocks in January.

January Barometer: Devised by Yale Hirsch in 1972, and published in the *1973 Stock Trader's Almanac*, the January Barometer states that as the S&P 500 goes in January, so goes the year. This indicator has registered eleven major errors since 1950 for an 84.5% accuracy ratio.

Market at a Glance

Seasonal: *Improving.* October is the last month of the "Worst Six Months" for DJIA and S&P 500 and the last month of NASDAQ's "Worst Four Months". In post-election years October ranks mid-pack with average performance ranging from 0.9% (DJIA) to 1.4% (NASDAQ). Keep an eye out for the Official MACD Seasonal Buy Signal. It can trigger anytime on or after October 1.

Fundamental: *Decelerating.* According to the Atlanta Fed's *GDPNow* Forecast, Q3 growth is projected to be 3.7% as of its update on September 21, down from 5.7% in its August 25 projection. August's jobs report was also a major disappointment with only 235k net jobs added versus expectations around three times higher. However, these are still respectable growth and jobs numbers when compared with pre-Covid data.

Technical: *Consolidating.* At the closing lows of the late-September pullback, DJIA, S&P 500 and NASDAQ were all below their respective 50-day moving averages. DJIA had been meandering since mid-August while S&P 500 and NASDAQ moved modestly higher into early September before all retreated. The pullback has reset Stochastic, relative strength and MACD indicators. The recent rebound has been confirmed by a Stochastic crossover, but not by MACD.

> ***"The pullback has reset Stochastic, relative strength and MACD indicators. The recent rebound has been confirmed by a Stochastic crossover, but not by MACD."***

Monetary: *0 – 0.25%.* As widely anticipated the Fed left interest rates unchanged and continued preparing the market for an eventual tapering of its asset purchase program (QE). Inflation hawks that were expecting action at this meeting were left disappointed and the "all clear" flag for stock buying continues to fly at least until the next Fed meeting. In post-meeting comments Fed Chairman Powell said the committee is ready to move and suggested that tapering could be completed by mid-2022. More Fed members are also projecting a rate hike in 2022.

Psychological: *Correction.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors have slipped down to 47.1%, their lowest number since May 2020. Correction advisors stand at 30.6% while Bearish advisors have crept up to 22.3%. Overall sentiment has slipped to neutral. Based solely upon sentiment it is neither a great time to be selling or a great time to be buying.

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