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October 2022 Almanac: Top Month in Midterm Years

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October can evoke fear on Wall Street as memories are stirred of crashes in 1929, 1987, the 554-point DJIA drop on October 27, 1997, back-to-back massacres in 1978 and 1979, Friday the 13th in 1989 and the 733-point DJIA drop on October 15, 2008. During the week ending October 10, 2008, DJIA lost 1,874.19 points (18.2%), the worst weekly decline, in percentage terms, in our database going back to 1901. March 2020 now holds the dubious honor of producing the largest and third largest 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.

October has been 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%). Seven of these years were midterm bottoms. October is also the end of the Dow and S&P 500 "Worst 6 Months" and NASDAQ "Worst 4 Months". *Stock Trader's Almanac* Seasonal MACD Buy Signal can occur anytime beginning October 3 (the first trading day of the month this year).

Over the last twenty-one years, the full month of October has been a solid month for the market, ranking #3 for DJIA, S&P 500 and NASDAQ. DJIA, S&P 500, NASDAQ, and Russell 2000 have all recorded gains ranging from 1.0% by Russell 2000 to 2.7% by NASDAQ. But these gains have come with volatile trading, most notably during the early days of the month. October has opened softly with modest average gains on its first trading day by DJIA, S&P 500, and NASDAQ. On the second day, all four indexes have been weak followed by a rebound on the third trading day before additional weakness pulls the market lower through

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Midterm Year October since 1950

	Rank[1]	Avg %	Up	Down
DJIA	1	2.6	12	6
S&P 500	1	2.7	13	5
NASDAQ*	2	3.1	9	3

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

** Since 1971*

October Vital Stats (1950-2021)

	DJIA		S&P 500		NASDAQ	
Rank[2]	7		7		7	
# Up	43		43		28	
# Down	29		29		23	
% Higher	59.7		59.7		54.9	
Average %	0.6		0.9		0.7	
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 2022 Bullish Days[3]: Data 2000-2021						
	5, 6, 14, 26, 28		5, 14, 18, 19, 21 24, 26, 28		5, 14, 18, 21, 28	
October 2022 Bearish Days[4]: Data 2000-2021						
	4, 7, 13		7, 27		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.*

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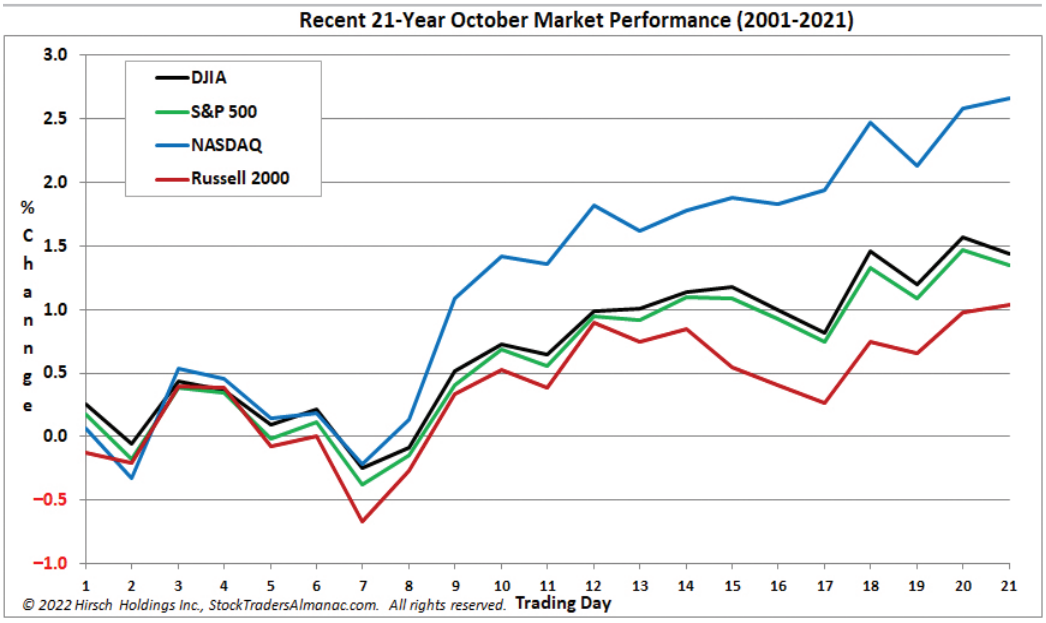
the seventh trading day. At which point, the market has historically found support and begins to rally through mid-month and beyond.



Midterm-election-year Octobers are downright stellar thanks to the major turnarounds mentioned above; ranking number one on the DJIA and S&P 500. Midterm October is NASDAQ's second-best month and Russell 2000's third best. This is usually where the "Sweet Spot" of the four-year-presidential-election-cycle begins. The fourth quarter of the midterm years combines with the first and second quarters of the pre-election years for the best three consecutive quarter span for the market, averaging 19.3% for the DJIA and 20.0% for the S&P 500 (since 1949), and an amazing 29.3% for NASDAQ (since 1971).

Options expiration week in October provides plenty of opportunity. On the Monday before monthly expiration DJIA has only been down 10 times since 1982 and the Russell 2000 is up twenty-three of the last thirty-two years, seventeen straight from 1990 to 2006. Expiration day has a mixed record while the week as a whole has been improving with S&P 500 recording seven straight weekly advances coming into this year. After a market bottom in October, the week after is most bullish, otherwise it is susceptible to downdrafts.

October Outlook: Bear-Killer and Bargain Month

We coined the term "bear-killer" for October way back in 1968 in the *1969 Stock Trader's Almanac*, the second edition. The original theory from the 1969 Almanac still holds water.

October has been the big bargain month of the post-World War II era. Its chief asset is its enviable position in the calendar. It falls in front of the most bullish three-month span of the year (November, December and January). At this time, volume picks up considerably and there is a great seasonal demand for stocks.

The annual surge of investment funds into the market has helped stem the tide of major bear markets enabling October to become the "bear-killer." In addition, so many stalled bull markets seem to get moving again during this month. 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%). Seven of these years were midterm bottoms.

> ***"The annual surge of investment funds into the market has helped stem the tide of major bear markets enabling October to become the "bear-killer." "***

Amazing how little this has changed in 54 years despite the many systemic changes to the market, technological advances and shifts in collective human behavior and behavioral finance. The negative seasonality in September and volatility in October that creates "Octoberphobia" and turned October into a "bear-killer" comes from fund tax selling, end of Q3 window dressing and portfolio restructuring.

Down YTD Q3

S&P 500 is down -23.6% year-to-date as of the 9/29/2022 close. With one day left in September S&P 500 is on the brink of the 4th worst YTD Q3 performance since 1930. In the table here we show the record of the previous 23 years since WWII (1946) when S&P 500 was down for the year at the end of Q3.

In all 23 years the following Q4 was up 69.6 % of the time for an average gain of 3.1%. Subsequent Q1s were up only 52.2% of the time for an average gain of 2.7%. The following Q2s gained ground 65.2% of the time for an average gain of 2.9% and then next years were up 73.9% of the time for an average gain of 11.9%.

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October Outlook: Bear-Killer and Bargain Month

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But the record for midterm years down at the end of Q3 is better. Of those nine midterm years highlighted in blue in the table only 1946 into 1947 had no bounce with 1947 closing exactly at the same price as 1946 for S&P. Overall, Q4s were up 88.9% of the time, average gain 7.6%, Q1s up 77.8% of the time, average gain 6.7%, Q2 up 77.8% of the time, average gain 4.6% and next years up 88.9% of the time, average gain 19.2%.

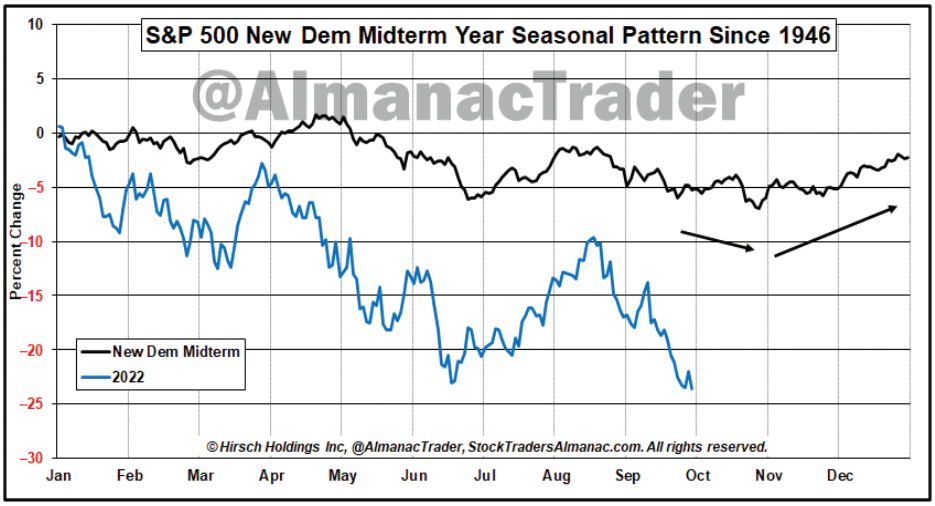
So, while things look grim out there on Wall Street, economically and globally, odds are we are nearing a bottom and the prospects for Q4 and next year are encouraging, at least historically, seasonally and 4-year cycle-wise. But there is still a lot that needs to go right, and the market likely has further downside left.

We have shared several analog charts to 2022 this year, but the one that stands out to us now after taking out the June lows on DJIA and S&P 500 is the New Democratic President Midterm Year analog. The chart suggests that after a bit of a rebound in mid-October the market will make a lower low at the midterm bear market bottom toward the end of October.

While we are all anxious for this bear to run its course and for the next *Stock Trader's Almanac* Best Months Seasonal MACD Buy Signal, patience and prudence is in order. As September delivered on its historic weakness October promises to present its usual volatility. The *Stock Trader's Almanac* MACD Buy Signal has come as early as October 1, though that does not appear likely this year, and as late as mid-December.

S&P 500 After Down Year-to-Date Q3 Since 1946

Year	YTD Q3	Q4	Next Q1	Next Q2	Next Year
1946	– 13.8%	2.3%	– 0.8%	0.3%	0.0%
1947	– 1.2%	1.3%	– 1.4%	11.0%	– 0.7%
1953	– 12.1%	6.3%	8.6%	8.4%	45.0%
1956	– 0.3%	2.9%	– 5.5%	7.4%	– 14.3%
1957	– 9.1%	– 5.7%	5.3%	7.5%	38.1%
1960	– 10.6%	8.6%	12.0%	– 0.6%	23.1%
1962	– 21.4%	12.1%	5.5%	4.2%	18.9%
1966	– 17.2%	4.9%	12.3%	0.5%	20.1%
1969	– 10.3%	– 1.1%	– 2.6%	– 18.9%	0.1%
1970	– 8.5%	9.4%	8.9%	– 0.6%	10.8%
1973	– 8.1%	– 10.0%	– 3.7%	– 8.5%	– 29.7%
1974	– 34.9%	7.9%	21.6%	14.2%	31.5%
1977	– 10.2%	– 1.5%	– 6.2%	7.1%	1.1%
1981	– 14.4%	5.5%	– 8.6%	– 2.1%	14.8%
1982	– 1.7%	16.8%	8.8%	9.9%	17.3%
1990	– 13.4%	7.9%	13.6%	– 1.1%	26.3%
1994	– 0.8%	– 0.7%	9.0%	8.8%	34.1%
2000	– 2.2%	– 8.1%	– 12.1%	5.5%	– 13.0%
2001	– 21.2%	10.3%	– 0.1%	– 13.7%	– 23.4%
2002	– 29.0%	7.9%	– 3.5%	14.8%	26.4%
2008	– 20.6%	– 22.6%	– 11.7%	15.2%	23.5%
2011	– 10.0%	11.2%	12.0%	– 3.3%	13.4%
2015	– 6.7%	6.5%	0.8%	1.9%	9.5%
2022	– 23.6%		** At Close of 9/29/22*		
	Average:	**3.1%**	**2.7%**	**2.9%**	**11.9%**
	Median:	**5.5%**	**0.8%**	**4.2%**	**14.8%**
	Up:	**16**	**12**	**15**	**17**
	Down:	**7**	**11**	**8**	**6**
	% Up:	**69.6**	**52.2**	**65.2**	**73.9**
	Midterm Years (In Blue)				
	Average:	**7.6%**	**6.7%**	**4.6%**	**19.2%**
	Median:	**7.9%**	**8.8%**	**2.3%**	**19.5%**
	Up:	**8**	**7**	**7**	**8**
	Down:	**1**	**2**	**2**	**1**
	% Up:	**88.9**	**77.8**	**77.8**	**88.9**



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, 2021, the index contained only 3687 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 twelve major errors since 1950 for an 83.3% accuracy ratio.

Market at a Glance

Seasonal: *Improving.* October is the last month of DJIA and S&P 500 "Worst Six Months" and NASDAQ's "Worst Four Months." Twelve post-WWII bear markets have ended in October and seven were in midterm years. October is the #1 DJIA and S&P 500 month in midterm years, #2 for NASDAQ. STA Seasonal MACD Buy signal can trigger any time *after* the close on October 3 this year.

Fundamental: *Recession?* One bright spot is the labor market where official metrics remain reasonably firm. GDP was negative in Q1 and Q2 and the Atlanta Fed *GDPNow* estimate for Q3 is just 0.3% as of its September 27 update. Surging mortgage rates are cooling the housing market and price declines are popping up. Consumer sentiment remains depressed as inflation and Fed rate hikes eat away at spending power. Energy prices have retreated but remain elevated while corporate earnings are slipping with several notable warnings from FedEx, GE, and Ford.

Technical: *New Lows.* DJIA and S&P 500 have closed below their respective June lows. NASDAQ and Russell 2000 have not. The bear market is not over yet. 50- and 200-day moving averages are all in decline and remain distant. The market's next move will likely depend on where NASDAQ goes. If its June closing low holds, that would be a positive and encouraging. However, if the opposite occurs then further declines are increasingly likely.

Monetary: *3.00 – 3.25%.* Persistent inflation has pushed the Fed to take aggressive action. A blunt speech by Chairman Powell at Jackson Hole was the first warning to the market and last week's meeting solidified their intentions. The Fed increased its key rate by 0.75% and indicated similar sized increases are likely at its next two meetings. Their apparent objective, based upon projection materials, is to have the fed funds rate between 4% and 4.5% by the end of this year. The brisk pace of rate increases compared to other major central banks has the U.S. dollar at multi-year highs and Forex market volatility climbing. The Fed may soon need to intervene in Forex markets.

> ***"The bear market is not over yet. 50- and 200-day moving averages are all in decline and remain distant.... The Fed may soon need to intervene in Forex markets."***

Sentiment: *Slipping.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors stand at 25.4%. Correction advisors are at 40.3% while Bearish advisors numbered 34.3% as of their September 28 release. Sentiment has been mixed and largely responding to the markets moves. Bullish advisors peaked in mid-August just as the market was topping out. When they bailed on the bullish camp, they went to join correction advisors. More bearish advisors would be a welcome sign as historically the best broad opportunities for new long positions have been at higher levels.

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