



Fourth Quarter 2018

Seasonality Cycles and 4th Quarter Returns

With September - historically the worst month for the financial market –now behind us, it’s time to look forward to the fourth quarter. While retailers anticipate strong fourth quarter sales to put their earnings solidly in the black, investors also cross their fingers and hope that the fourth quarter’s traditionally strong performance holds true for yet another year.

Since 1896, the Dow Jones Industrials have gained an average 2.7% in the fourth quarter of the year, compared to an average 1.6% for the first three quarters. The fourth quarter has also been the S&P 500’s strongest quarter, gaining an average 3.9% as this graph from LPL Research shows. Over the 66-year period, the S&P 500 gained value in the fourth quarter 79% of the time.

Just as the fourth quarter has typically outperformed, December tends to be one of the two best months of the year for the stock market, with up years outnumbering down years three to one. The twelfth month typically ties July for the best average monthly gain.



Source: LPL Research, FactSet 09/27/17 The modern design of the S&P 500 Index was first launched in 1957. Performance back to 1928 incorporates the performance of predecessor index, the S&P 90.

What might be the reason for the seasonal strength of the fourth quarter? Some analysts maintain mutual funds give the quarter a boost by selling off poor performers in the third quarter to provide window dressing for their yearend reports. Selling losers could be the reason for September’s historically poor performance, setting the stage for the market’s rise in the fourth quarter.

There’s also the “Santa Claus” rally as strong holiday hiring and sales contribute to the economy. Yearend bonuses tend to make their way into the financial markets, providing buying pressure.

Money manager Ken Fisher points to a stock market anomaly he terms the Midterm Election Year Fourth-Quarter Effect as another reason to anticipate positive returns every four years. Since 1925, the market has risen in 20 of 23 midterm-election-year fourth quarters. Only once was it down significantly – 1930 in the midst of the stock market crash. During the last Midterm Election Year Fourth Quarter – 2014, the index was up nearly 5%.

With that said, there’s no guarantee that history will repeat or that fourth quarter 2018 will be a profitable one. A number of negative events could happen before year end. But it’s nice to know there’s a significant chance the quarter will be a good one for portfolios.

Brian R. Carruthers, CFP, CMT



Your Conservative Advisory Firm Since 1990
301 Forest Avenue
Laguna Beach, California 92651-2115 USA
Telephone: 1-949-464-1900
www.gobcafunds.com
brian@gobcafunds.com