

Mitch on the Markets

Beware of the September Market Myth



By Mitch Zacks
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When it comes to stocks in September, history has a simple message—sell. Since the inception of the Dow Jones Industrial Average (DJIA) in the late 1890's, the month that brings us the season of fall has also brought us a pattern of fall, as September has delivered an average loss of -1.1%. Compare this to the other eleven months of the year over that same time frame, and you see an average gain of +0.8%. What's the deal, September?

The statistics can also be looked at in different ways to suggest the same conclusion. One study looked at performance over decade-long periods since the late 1800's and found that in more than half of those decades September ranked in either 11th or 12th place in terms of monthly average performance (according to HubertRatings.com). For those keeping score out there, there are 12 months in a year, so coming in 11th or 12th place is not good.

September performance gets even worse—and the probability of negative

performance even higher—when August is a weak month for stocks. Sam Stovall, the U.S. equity strategist at S&P Capital IQ, studied the correlation between August and September regarding S&P 500 performance. His research revealed that if the S&P 500 fell more than -5% in August, then stocks would fall or be flat in September *over 80% of the time*. He also found that the average market drop during September months following a down August is -4%.

Ok one more historical fact: if you look at the S&P 500 going back to 1945, September is lackluster a majority of the time—stocks have fallen 55% of the time, which is notably more than other months.

So again we ask, *what's the deal September?* The answer: nothing. Look at my last stat one more time: September is negative 55% of the time going back to 1945. If we look at the glass half full, *this also means it is positive 45% of the time*. And, since we know that every other month has a higher probability of being positive than September (at least since 1945), to me it's a weak argument to sell in September just to get back in the

market in October. The transaction costs likely aren't worth it, and there's nearly a 50% chance you'll be wrong.

Beware of Market Myths and Focus on Time Tested Probabilities

Selling in September is just like the "January Effect" and "Sell in May and Go Away"—they're all not powerful enough (statistically) to influence investment decisions in a meaningful way. They're too short-term in nature and don't give investors the right kind of insight to be successful over the long-term, which is what's important. Here are the only two market mantras that investors should focus on instead:

1. **Diversification is key to managing risk**
2. **The only calendar on which stocks are highly predictable is a 20-year calendar** – there is no 20-year period in history where the performance of stocks in negative.

Bottom Line for Investors

An investor may be tempted to sell after seeing the September statistics at the beginning of this post. The concern that a stock market downturn is around the corner might be further influenced by September's shoddy performance last year (-2.15%), and the year before that (-1.55%). But go back a few more years to 2012 and 2013, and September fared much better (+2.42% and +2.97%,

respectively). The point is, there is no way to know whether it will be up or down, and for long-term investors, it doesn't make sense to try and market time.

What does make sense, in my view, is to adequately diversify your portfolio, so you do not have to worry as much about the actual outcome this September. Zacks has several strategies that invest in different asset classes and styles – like small-cap, large-cap, mid-cap, dividends, and bonds – that can be used to build a portfolio of non-correlated assets. When I said earlier that diversification is key to managing risk, I meant it.

-Mitch

About Mitch Zacks

Mitch is a Senior Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.

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