MARKET SEASONALITY

(Since 1969)

The following charts show the seasonality of the market as measured by the S&P 500. Although investors focus on the pattern of the **average seasonality**, the analysis of the **growth pattern of each year** going back to 1969 provides also profitable insights.

Because of the market behavior since 1969, two distinct periods are examined. The first one goes from **1969 to 1983**. Sharp bear and bull markets were typical during these years. The second period covers the years going from **1984 to 2002**, which were characterized by sharply higher prices.

Did the two periods have the same market seasonality? Was there any other feature in the seasonal pattern of the market that can be used by investors?

The answer is that the two periods had differences and similarities. Some reliable and profitable patterns providing downside risk and upside potential will also be reviewed.

Period from to 1969-1983

- Most of the gains (using the average seasonality) were made from January to April (see Chart 1).
- The market (using the average seasonality) bottomed in August and rose until December (see Chart 1).
- The market (using the average seasonality) showed little or no gains from April to August and declined from June to August (see Chart 1).
- The worst market decline occurred in 1974 (-29%). The year with the largest gain was 1975 (+32%) (see Chart 2).
- In a losing year, most of the loss occurred from January to September (see Chart 2).
- In a losing year, the market gain from September to December was less than 10%.
- In a losing year, there were 3 instances when the market showed losses from September to December: 1969 (-3%), 1973 (-9%), and 1974 (-1%) (see Chart 2). In other words, the downside risk was limited from September to December.

Period from 1984 to 2002

- 75% of the gains of the whole year (using the average seasonality) were made from January to June (see Chart 3).
- 83% of the gains for the whole year (using the average seasonality) were made from January to August (see Chart 3).
- The market (using the average seasonality) bottomed in September and rose until December. The gains from January to May were about the same as those from May to December (see Chart 3).
- The market (using the average seasonality) showed little or no gains from June to September and declined from July to September (see Chart 3).
- The worst decline occurred in 2001 (-12%) and the largest gain occurred in 1995 (+34%) (see Chart 4).

- In a losing year most of the loss took place from January to September (see Chart 4).
- In a losing year the market gained less than 15% (2001) and lost about 30% (1987) from September to December (see Chart 4).

Lessons to be learned from the seasonality of the market

- The first half of the year is the most profitable one.
- The period June-September is likely to show little or no profit.
- The gains from September to December are not a sure thing, but the downside risk is minimal. In other words, it pays to be aggressive.
- The first few months of the year set the tone for the whole year. If the market is not in positive territory by May-June, the odds favor a losing year (see Chart 2 and Chart 4).
- The comparison of the current year to that of previous years provides useful information on the future risk/reward of the market (see Chart 2, Chart 4 and Chart 5).
- In 2002 the S&P 500 is acting like 2001 and 1974 (see Chart 2 and Chart 4).
- At current levels, given the size of year-to-date losses, the downside risk is limited to less than 5%, but the upside potential is close to 15% (see Chart 4 and Chart 5).

The charts showing the patterns of the market since 1969 are reviewed in the following pages.

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9/20/02

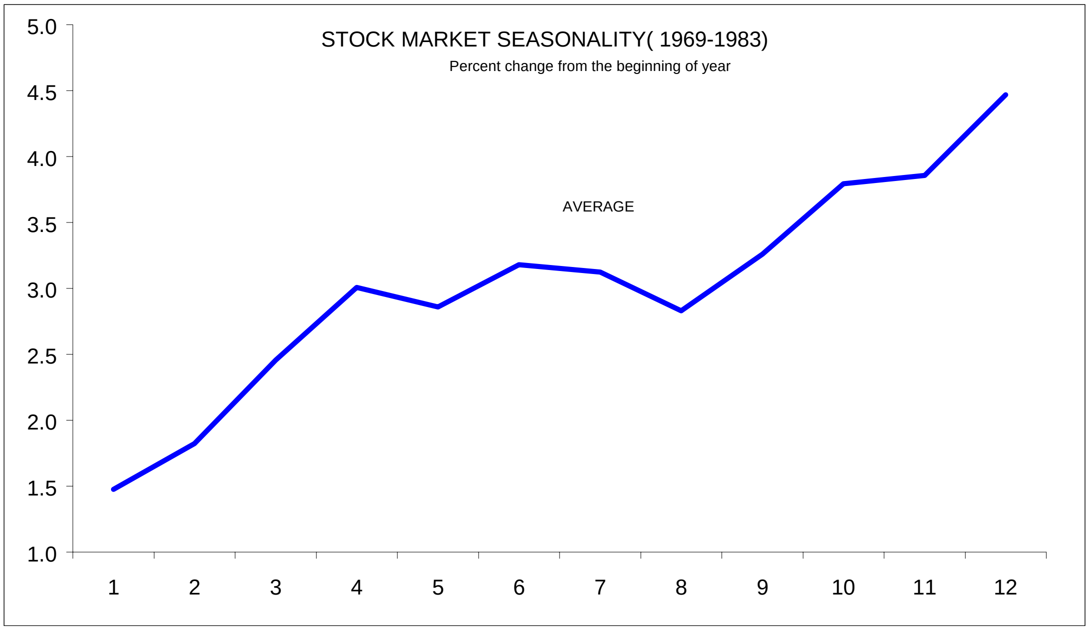

Chart 1. From 1969 to 1983 most of the gains took place from January to April. The market performed poorly from April to August.

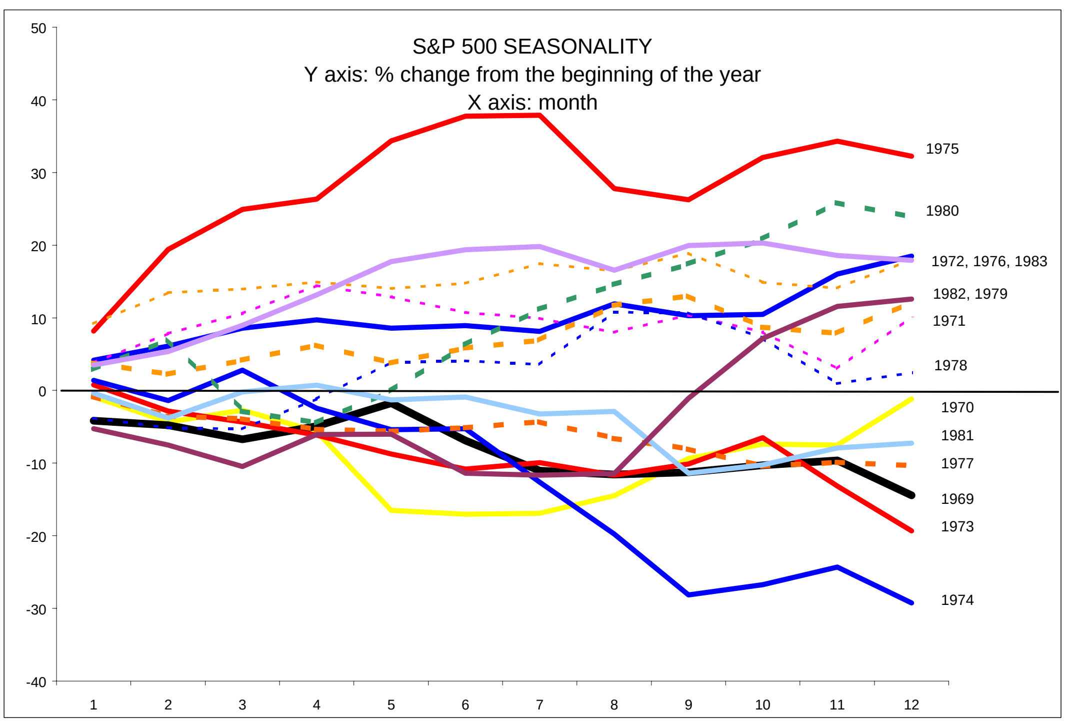

Chart 2. The first few months of the year set the tone of the market for the whole year. If the market is not in positive territory by May-June, the odds favor a losing year

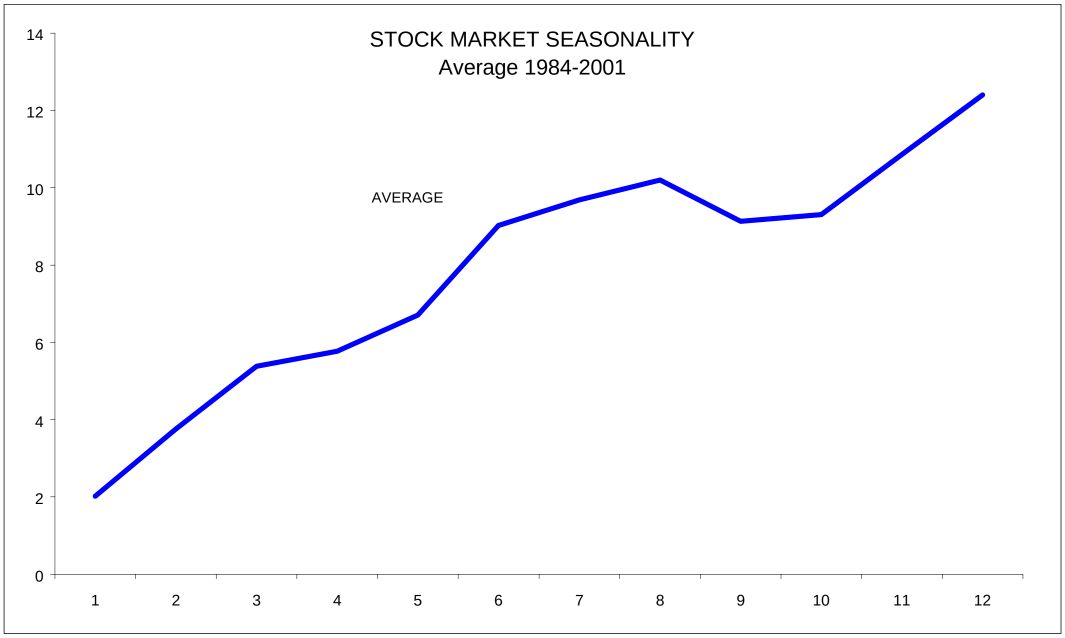

Chart 3. From 1984 to 2001 most of the gains occurred from January to August. No gains were made from June to September.

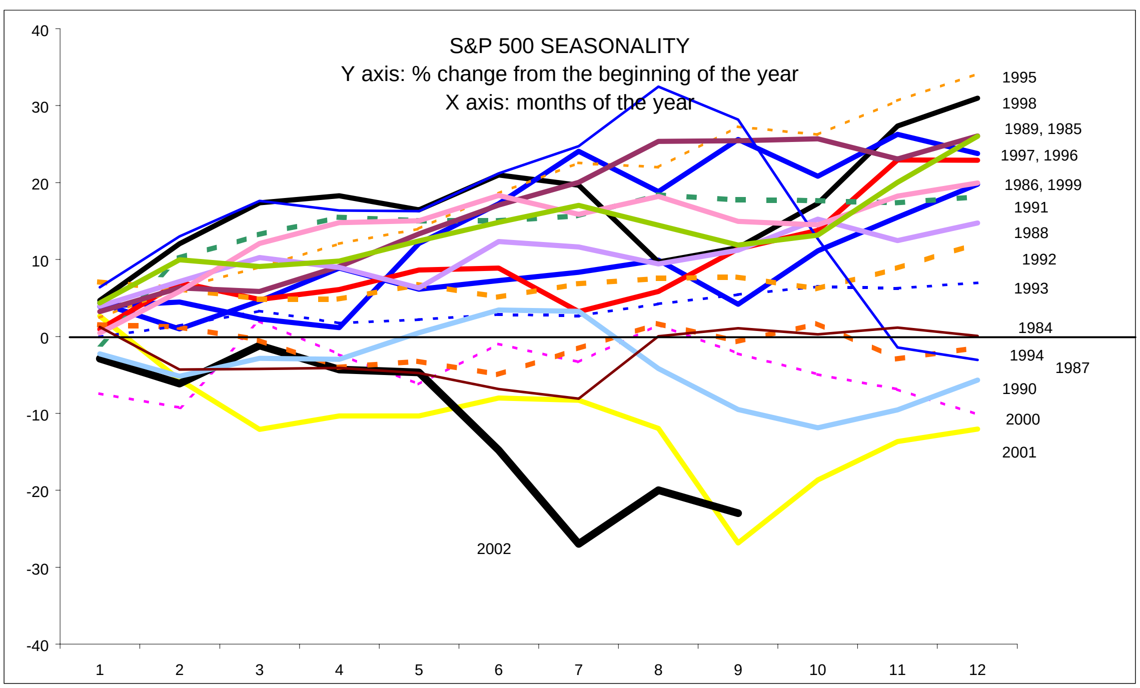

Chart 4. If the market is not in positive territory by May-June, the odds favor a losing year. In 2002 (as of this writing) the downside risk of the market is minimal.

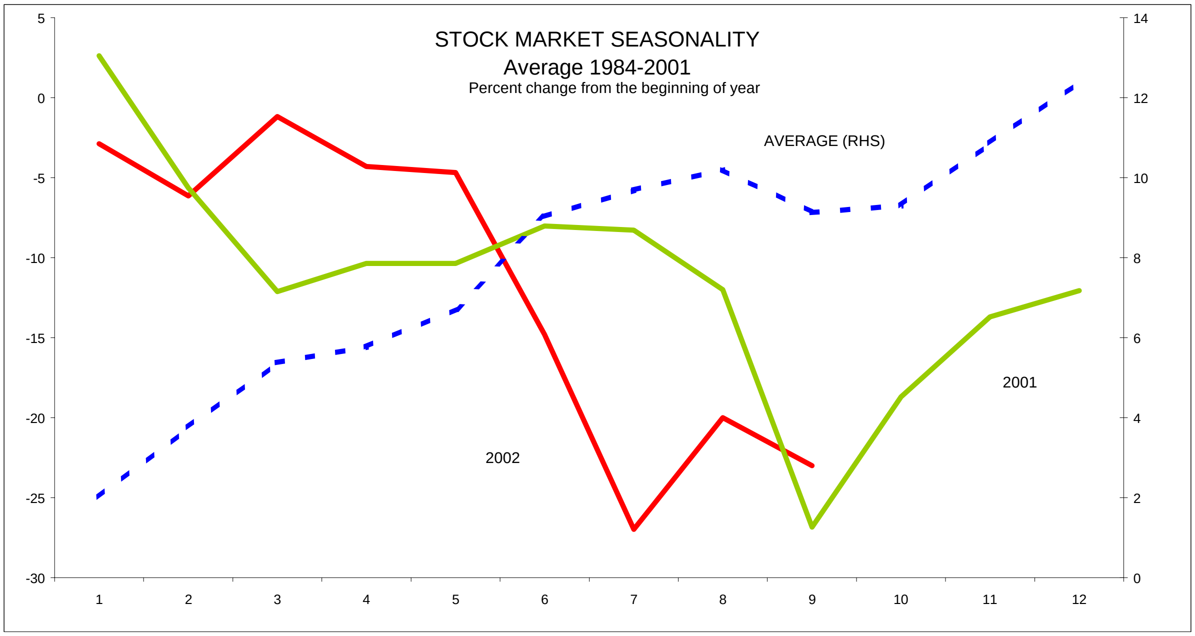

Chart 5. The pattern of the market in 2002 is similar to that in 2001.