

THACKRAY SEASONAL TRADE

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October - Bear Killer & Correction Killer

Correction Could End in October

It is not a coincidence that the favorable six month cycle for stocks starts in late October (October 28th), and October is the most frequent months for corrections and bear markets to be "killed," and the stock market to rally. A correction is defined as a decline of 10% to 19.9% and a bear market as a decline of 20%+.

Since 1950, the S&P 500 has had a total of 33 corrections of 10% or greater. Most of the declines were stopped in the second half of the year and by far, the most common month was October, which accounted for almost 1/3 of the corrections and bear market bottoms (Exhibit 1).

The fact that October is the most populous month for bears and corrections to be killed does not mean that this year's correction has to end in October. In fact, the correction might have already ended on August 25th. On the other hand, it is possible that the end to the correction could still be ahead of us, either in the last few weeks of October, or November or December.

Despite the stressful feeling that most investors experience in a correction, so far, this is just a run of the mill correction (it never feels that way). Historically, since 1950, the average correction has lasted 4.4 months and has produced an average loss of 14.0% (Exhibit 2).

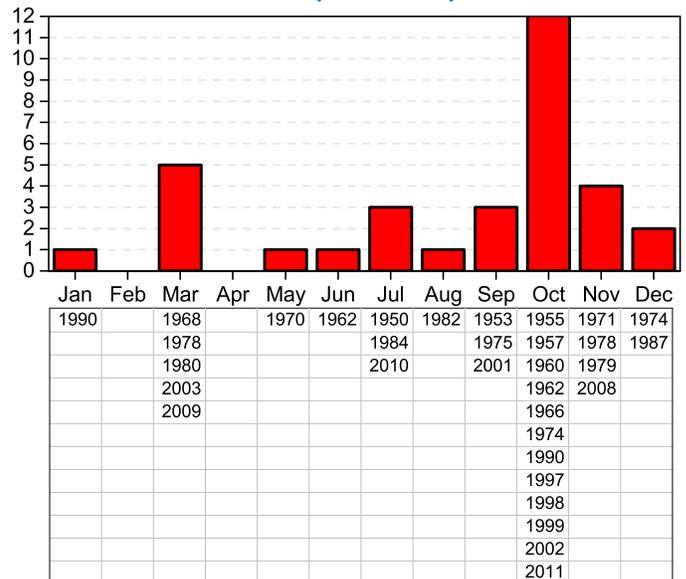
In the most recent correction, the S&P 500 peaked May 21st (2131) and then declined to August 25th (1868), for a 12.3% correction. If the August 25th date holds as the bottom, then the correction will have lasted 3.1 months.

Exhibit 3 shows that the length of time since the last correction (white space on graph from 2011) is above average since 1950. The graph also shows that it is not uncommon for a shorter term correction to be followed fairly quickly by another correction. Not a desired scenario, but possible.

Exhibit 4: Technical Status

In August 2015, the S&P 500 did not fall below the October 2014 low, and the September 2015 low did not fall below the August 2015 low. Lows that are not broken are a good thing. Recently, the S&P 500 has risen sharply and is just above its previous resistance of 2000. If the S&P 500 is able to show strength above 2000, it will have broken above a short-term double bottom, which is bullish. The big caveat is that October is not over...and October often brings surprises.

Exhibit 1: Frequency of Losses >10% (Bear & Correction) Month Ended - S&P 500 (1950-2014)*



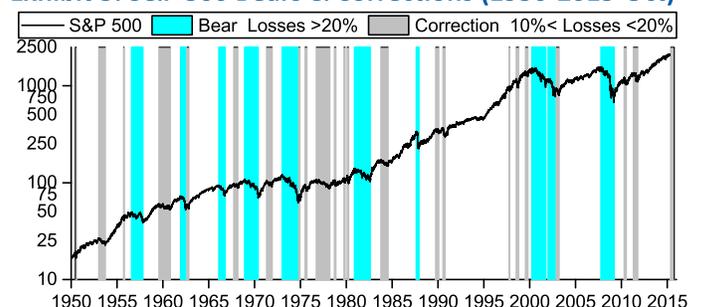
*Source Data: Bloomberg

Exhibit 2: S&P 500 Bears and Corrections (1950-2014)*

	Correction		Bear	
	# Months	% Loss	# Months	% Loss
Avg.	4.4	-14.0	12.2	-33.3
Med.	2.7	-14.0	13.4	-33.5
Max	17.4	19.9	20.7	-51.9
Min	0.6	10.1	2.1	-21.6

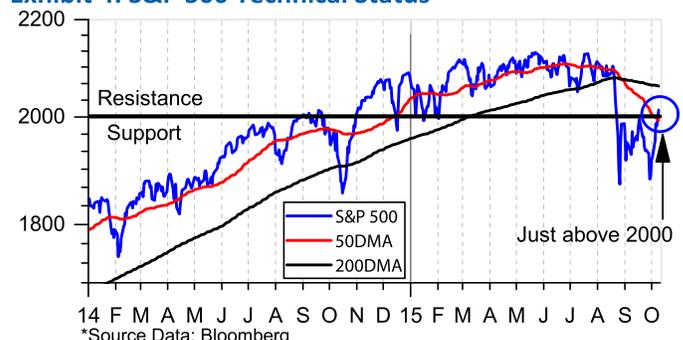
*Source Data: Bloomberg

Exhibit 3: S&P 500 Bears & Corrections (1950-2015-Oct)*



*Source Data: Bloomberg

Exhibit 4: S&P 500 Technical Status*



*Source Data: Bloomberg

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