

Thackray Report

October - The month with a scary reputation!

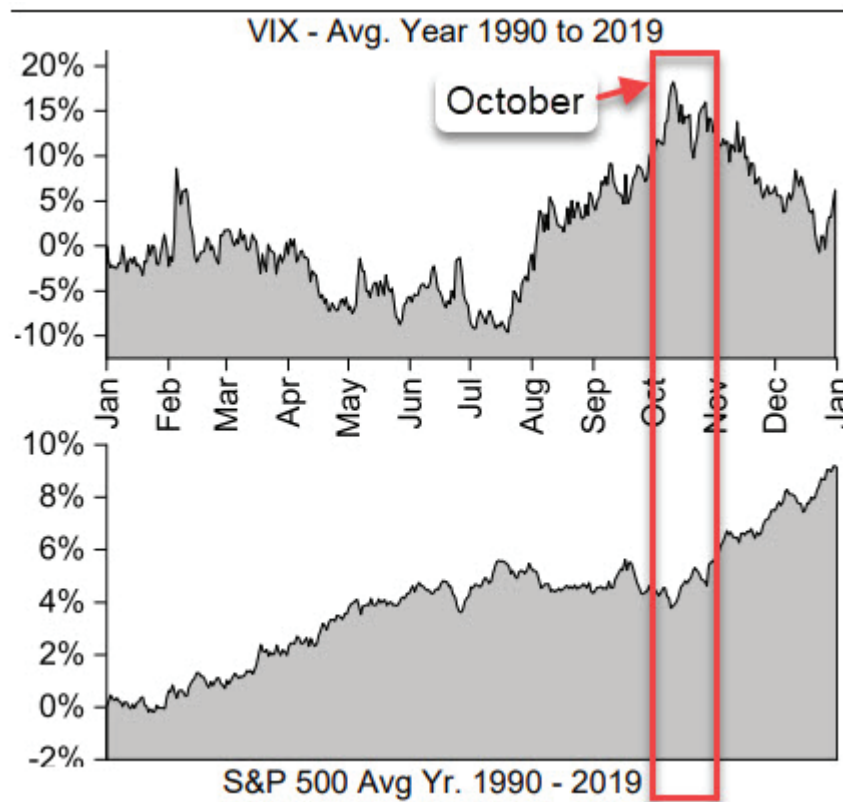
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October has long been judged as the scary month in the stock market. Does it deserve its reputation?

Over the long-term in October, the S&P 500 has produced an average gain of 0.8% and has been positive 60% of the time, from 1950 to 2019. So why do investors cringe when October rolls around? In one word: volatility.

When October rolls around, there is usually a few articles in the media on how the stock market can be a scary place for investments during the month. October has earned its scary reputation with the infamous crash that occurred on October 29, 1929 (Black Tuesday) and the October 19, 1987 crash. It is not just that a few large crashes have occurred in October, but on average volatility tends to peak in October.



The graph above, shows the average cumulative percent change in the CBOE Volatility Index (VIX). It goes back to 1990 and avoids including the two big crashes that are often synonymous with October. Volatility tends to increase from July and spike in October. When volatility recedes in October, the S&P 500 tends to put in a "bottom." This year, the VIX reached a low of 15.1 on July 2 and has since been trending higher. Currently, the VIX is floating around the 20 level, which is not really a concern in and of itself. The point is that volatility is following its seasonal trend and has been rising since July, as shown in the graph below.



Good News - Volatility can provide opportunities

The stock market can provide opportunities in October. Over the long-term, the tendency is for the stock market to bottom towards the end of October. In fact, this is the time when the stock market starts its six-month strong seasonal period that lasts from late October to early May. After extensive research many years ago, I found the optimum date on average to increase equities in the market is to be invested by October 28. Last year, late October was a good time to increase equities, as the stock market was negative for the month, but started to perform well late in the month. In 2019, the stock market put in a mini-bottom in early October.

If the stock market is close to an all-time, it is often best to be patient and increase equity exposure towards October month end. If the stock market is volatile during the month of October, steep drops can lead to a good opportunity during the month to start "legging" into the market with more exposure. Either way, October could once again provide volatility excitement and opportunities.

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