OCTOBER - BEAR KILLER

— Thackray Report —

October 24, 2022

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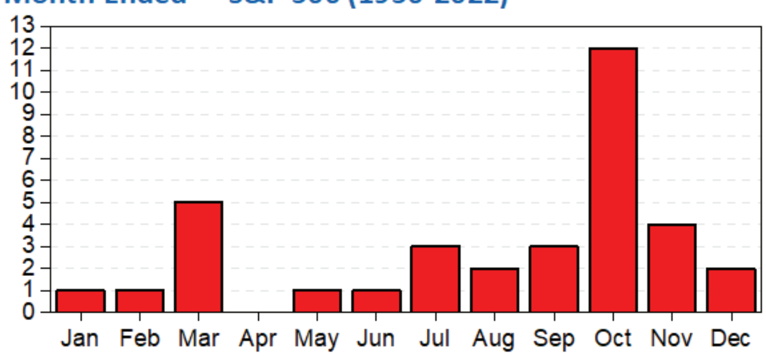
In my October Newsletter, I mentioned that October was a bear killer, where bear markets tend to bottom. This report adds some data, showing how many bear markets and corrections have ended in October versus other months of the year.

The graph below illustrates that October is by far the most populous month of the year for bear and stock market corrections to bottom. The next month with the highest number of incidences of bottoms is March. If the stock market is negative in the beginning of the year, March can be an inflection point for the stock market to turn higher. Note: The stock market tends to have very few bottoms from April to September.

If the stock market is going to bottom in the spring, it typically bottoms in March, ahead of one of the strongest months of the year- April. May through September has very few bottoms as this tends to be a weak time of the year in the stock market. If the stock market is negative at this time, it tends to continue with poor performance until October.

Exhibit 1: Frequency of Losses >10% (Bear & Correction)

Month Ended - S&P 500 (1950-2022)*



Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1990	2016	1968		1970	1962	1950	1982	1953	1955	1971	1974
	2018	1978				1984		1975	1957	1978	1987
		1980							1960	1979	2018
		2003							1962		
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Bear markets can end at different times for different reasons...

Bear markets can end at different times for different reasons. Sometimes the economy is starting to turn higher. Sometimes the stock market has just gone down too much compared to the profit outlook of companies. Usually there is a catalyst that is a turning point for the stock market. Often there is some capitulation, where investors "throw in the towel." Sometimes the stock market just turns higher after a large drop.

No one knows when the current bear market will end. However, on a seasonal basis, most bear markets and corrections end in October. The stock market has a well established seasonal pattern of performing well from November to April. The stock market gains, on average, in this six-month period far exceed the gains in the other six months. Stock markets often bottom in October, regardless of how severe the correction. Why? The main reason is that investors have a liquidity preference cycle where they reduce risk in the summer months during the holiday season and increase risk after the holiday season in the autumn. In addition, analysts tend to revise their estimates for companies downward in the summer months after starting the year too aggressively.

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In the end, on average, late October tends to be a good time to enter the stock market, especially after a large correction has occurred in the summer months. Corrections and bear markets do not thwart this trend, rather they support a positive inflection point for the stock markets in October.

Bear markets are defined as losses greater than 20% and corrections are defined as losses greater than 10%, but less than 20%. Bear markets, by definition tend to last longer than corrections. A correction has to occur before a bear market is registered.

Exhibit 2: S&P 500 Bears and Corrections (1950-2022)*

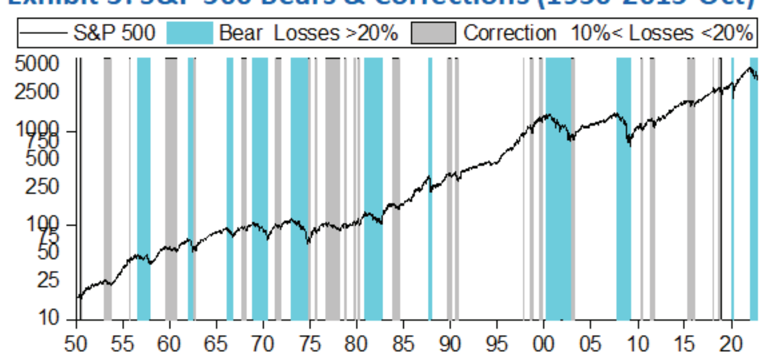
	Correction		Bear	
	# Months	% Loss	# Months	% Loss
Avg.	4.2	-14.2	11.1	32.8
Med.	2.8	-13.9	9.4	33.5
Max	17.4	-19.9	20.7	-51.9
Min	0.5	-10.1	1.1	-21.6

*Source Data: Bloomberg

Corrections and bear markets tend to be common...

Corrections and bear markets tend to be common. In the graph below, the grey bars represent corrections and the blue bars represent bear markets. There is one period in which there is a dearth of corrections and bear markets, the 1990's leading up to the tech wreck. So far, in the current bear market there is nothing abnormal on a duration and decline basis. The current bear market has only lasted ten months so far versus the average eleven months, since 1950. The loss so far has been 25%, versus an average of 33% since 1950.

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



*Source Data: Bloomberg

It is always hard to buy when the stock market has been correcting over a multi month period. It is natural to extrapolate the trend out indefinitely. There are always weak data points for the stock market. There is always something "out there" in the future that could either end the bear market or make it worse. However, if there were one month to make an increased allocation to equities on a seasonal basis, looking for a bear market to end, it is October.