Philequity Corner (November 2, 2015)
By Valentino Sy

True to Form

In our book "Opportunity of a Lifetime," we devoted a portion to discuss the different seasons in the stock market. There, we explained how the stock market behaves during different times of the year. We showed tables summarizing many years' worth of data and statistics, with the goal of looking for trades that have high batting rates of success. So far this year, the PSE Index has acted true to form, as it slid sharply during the ghost month and in the calendar months of August and September, which have been historically weak seasons for the stock market.

The Ghastly Ghost Month

In page 195 of the book, we showed the returns of the PSE Index for each month of the lunar calendar (see Table 1). As seen in the table below, the seventh lunar month or the ghost month has the highest probably of declining at 60% and the lowest average monthly return of -3.0%

Table 1 – Stock market returns per lunar month

Lunar Month	Number of Declines (Out of 25 Years)	Number of Declines as a % of Total Sample	Average Monthly Return
1st	14	56	0.5
2nd	9	36	1.9
3rd	7	28	2.4
4th	7	28	1.6
5th	11	44	0.5
6th	13	52	0.1
7th	15	60	-3.0
8th	14	56	0.3
9th	11	44	-0.3
10th	10	40	3.0
11th	6	24	3.9
12th	12	48	3.4

Source: Wealth Securities Research

August and September – weakest months for stocks

Also in page 195 of the book, we showed the monthly returns of our stock market based on the Roman calendar (see Table 2). As seen in the table below, August and September have been the weakest months of the year. Based on data we gathered, August has a 68% chance of declining (the highest for all twelve calendar months), with an average return of -3.7% (the lowest for all the months). Likewise, September has been historically weak, with a 52% chance of declining and an average return of -1.9%.

Table 2 – Stock market returns per calendar month

Month	Number of Declines (Out of 25 Years)	Number of Declines as a % of Total Sample	Average Monthly Return
January	9	36	2.9
February	14	56	1.5
March	14	56	-0.4
April	9	36	2.2
May	7	28	2.0
June	10	40	2.7
July	11	44	1.9
August	17	68	-3.7
September	13	52	-1.9
October	10	40	1.2
November	11	44	1.4
December	6	24	4.4

Source: Wealth Securities Research

December and January – strongest months for stocks

The table above also shows that December and January are the strongest months of the year. Based on historical data, December is the strongest month of the year in terms of batting rate (24% chance of declining or 76% chance of gaining) and returns (average return of 4.4%). Similarly, January has a high batting rate (36% chance of declining or 64% chance of gaining) and an average return of 2.9%.

True to Form in 2015

The PSE Index has acted true to form so far this year. Below, we enumerate specific instances this year when the market behaved consistently with our observations about seasonality.

1. The PSE Index declined 6.7% during the ghost month this year (August 14 to September 12). This outpaced the 3.0% average decline of the stock market during the ghost month.
2. Our stock market slid by 6.0% and 2.9% in the calendar months of August and September. These exceeded the average decline of 3.7% and 1.9% for the months of August and September.
3. The PSE Index started to rebound since September ended. Our stock market went up by 3.5% in the month of October.
4. The PSE Index was not the only stock index that rebounded after September ended. Global stocks and most global indices likewise bounced sharply from their September lows and delivered strong positive returns for the month of October. For instance, in October this year, the S&P 500 gained 8.3%, the biggest monthly gain since October 2011 and the German stock index (DAX) surged by 12.3%, its largest monthly increase since April 2009.

Halloween to Valentine's

After going through a spooky ghost month and the weakest months of the year, we are now approaching the strongest months for stocks. The period from Halloween to Valentine's captures the strong performance of the stock market in December and January. In page 196 of the book, we showed that Halloween to Valentine's has a batting rate of 77% and an average historical return of 11%.

December liftoff may upset odds

Though statistics show that the stock market performs strongly in December and January, the market this year may continue to be volatile in the short term due to the various headwinds and risks that the global economy is facing. Specifically, the Fed has hinted at a possible rate hike in December this year or early next year. Note that this will be the first increase of the Fed funds rate since 2006. This will be a risk to emerging market (EM) countries, as this will likely contribute to the US dollar's strength and the weakness of EM stocks and currencies.

Calibrated rate hikes – positive in the long-term

Over the long-term, however, rate hikes should not derail the bull market. In fact, as we have shown in a past article (*Bond Yields Rising*, June 8, 2015), well-timed rate hikes are positive for the stock market, especially if they are accompanied by manageable inflation and economic growth. The Fed is certainly aware of this and has repeatedly said that future rate hikes will be calibrated based on economic data. The Fed will be extremely careful in raising interest rates because it does not want to undo the economic gains that it has achieved through its previous policies.

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