Philequity Corner (October 27, 2014)
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From Halloween to Valentine's

Halloween is coming this Friday, October 31. Since it is Halloween season, we think it is timely to write about how the stock market behaves during Halloween and the following months. In this article, we look at history and analyze statistics to determine how the stock market performs from Halloween up to the first few weeks of the new year.

Spooky October

This October has been particularly spooky for global stock markets. Looking at history, we also saw that for one reason or another, notable stock market crashes have happened in the month of October. In the table below, we show periods where the S&P 500 dropped substantially and bottomed during the month of October.

Table 1 - S&P 500 - Sharp Drops in October - 1987 to 2014

Year	% Drop	Returns After Drop			Notable Event
		1m	3m	12m	
1987	-31.5%	6.8%	10.9%	23.2%	Black Monday
1989	-7.3%	1.8%	1.9%	-10.1%	
1990	-8.9%	6.2%	6.7%	29.1%	
1991	-5.0%	4.3%	10.8%	6.9%	
1992	-5.3%	4.0%	6.6%	14.3%	
1997	-10.8%	8.5%	10.5%	21.5%	Asian Financial Crisis
1998	-10.0%	18.9%	32.9%	39.2%	Asian Financial Crisis
2000	-12.6%	2.7%	-0.8%	-17.9%	Dotcom Bubble
2002	-19.3%	15.2%	19.4%	33.7%	Iraq War
2005	-5.5%	4.9%	9.4%	16.0%	
2008	-22.6%	2.2%	-1.0%	19.2%	US Subprime Mortgage Crisis
2009	-5.0%	4.7%	4.0%	13.5%	
2011	-8.7%	14.7%	16.2%	32.0%	
2014	-9.8%	?	?	?	

Sources: Bloomberg, Wealth Securities

Recovery after October scares

The table above also shows the performance of the S&P 500 1 month, 3 months and 12 months after reaching its October lows. Based on this, we see that the stock market generally recovers strongly after the sharp drops in October.

October 2014 follows eerie history

This year, we were again reminded of October's historically spooky performance. This October, the S&P 500 dropped 9.8% from its recent all-time high on concerns of a global slowdown and Ebola. However, note that since that low, the S&P 500 has rallied 8.0%, showing signs of a possible V-shaped recovery.

Springboard for strong December and January performance

The S&P 500's historically scary performance in October and our stock market's spooky performance this month may actually be springboards for a possibly strong performance in the months of December and January. In one of our earlier articles, we explained the reasons why the stock market is usually strong during the months of December and January (*Santa Claus Rally and the January Effect*, December 26, 2005).

The Santa Claus Rally and the January Effect

One of the main reasons behind the Santa Claus Rally is yearend window dressing. This happens as fund managers and institutions go on a buying spree to pump up their annual results for investors. Further, investors generally have more money during this period, as most people receive their Christmas and yearend bonuses during this time. These, combined with the generally jovial holiday mood, tend to push stock markets higher during these months. Positive sentiment spills over to January, as the new year brings new hope that things will be better, thereby providing an encouraging backdrop for more investments.

77% Batting Rate for Halloween to Valentine's

Since today is October 27, we ran the numbers to see how the stock market performs from Halloween (October 27) up to Valentine's Day of the next year (February 14). We found that the PSE Index delivered positive returns during this period 77% of the time (20 out of 26 years) with an average return of 11%. We show this in the table below.

Table 2 - PSE Index - From Halloween to Valentine's - 1988 to 2013

Year	Return			Year	Return	
	Oct 27 to Feb 14	Full-Year			Oct 27 to Feb 14	Full-Year
1988	10.6%	2.8%		2001	42.2%	-21.8%
1989	-16.8%	32.4%		2002	0.2%	-12.8%
1990	41.9%	-41.2%		2003	8.6%	41.6%
1991	20.4%	76.7%		2004	20.1%	26.4%
1992	7.2%	8.8%		2005	7.4%	15.0%
1993	34.7%	158.1%		2006	23.2%	42.3%
1994	-13.9%	-14.1%		2007	-14.8%	21.4%
1995	15.7%	-6.9%		2008	-1.7%	-48.3%
1996	12.1%	22.2%		2009	0.6%	63.0%
1997	13.4%	-41.0%		2010	-11.4%	37.6%
1998	26.0%	5.3%		2011	12.6%	4.1%
1999	2.9%	8.8%		2012	20.5%	33.0%
2000	30.4%	-30.3%		2013	-6.5%	1.3%
Average Return (from 1988 to 2013)					11.0%	14.8%

Sources: Bloomberg, Wealth Securities

Yolanda upsets odds in 2013

Last year, the market was poised to go up after October. However, Yolanda happened in November and dampened our stock market's performance for the rest of the year.

We also note that similar to 2013, we saw some divergence or outliers in the table above, and most of these can be explained. In December of 1989, our country experienced a violent military coup. In 2002, the world was gripped with fears of an impending Iraq war. In 2007 to 2008, we saw the US subprime mortgage crisis unfold. And in late-2010, the Arab spring erupted. These events explain why our stock market performed poorly in a typically strong period for stocks.

Barring any black swans such as these, statistics tell us that we can expect the PSE Index to perform strongly in the coming months.

From Halloween to Valentine's

Our stock market's spooky performance this month prompted us to look at historical performance during this period. We chose Halloween and Valentine's because these are dates that are easy to remember. Based on our study of past performance, it seems that there is a bigger chance of making money from this point up to February. With a batting rate of 77% and an average return of 11%, the odds show that Halloween to Valentine's will likely be a profitable period for investors. Moreover, this period captures the historically strong months of December and January, which are buoyed by the Santa Claus Rally and the January Effect.

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