



Will September Continue to Be the Worst Month?

History gives us some guide as to market direction, but is this time different?

Heading into September, market historians are preaching caution because September has statistically been the worst month for the stock market. In fact, going back to 1928, the average September return for the S&P 500 has been a loss of 0.99%.

The second-worst month is May and it has provided investors with an average loss of 0.11% since 1928.

So, time to sell, right? Not so fast.

What Happened Before September Matters

Yes, it's true that the most dangerous phrase in all of investing is: "This time it's different." But this September might very well be different because markets have risen so much for the year already.

Since 1928 when the S&P 500 rose by more than 13% for the first six months, the index's median September gain was 1.4%, according to Fundstrat. Through June of this year, the S&P 500 was up 14%.

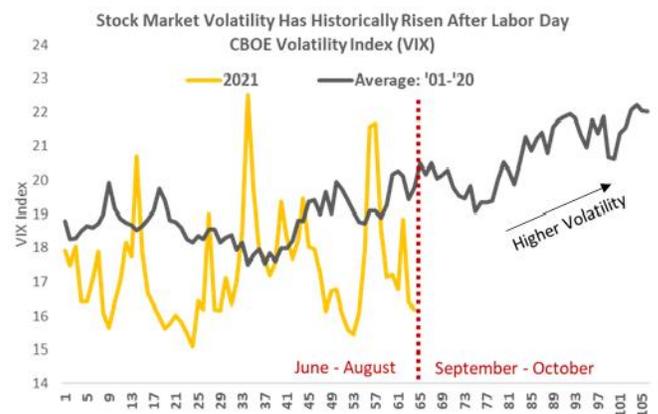
(The S&P 500 ended August with its 53rd record finish of 2021 as it was up 20.4% through August 31st. That's the strongest year-through-August performance since a 21.4% rise over the same period in 1997.)

But September is Still the Worst

Maybe that data from 1928 has you convinced that September 2021 will reward investors with positive

performance. Well, over the last 20 years, September has been the worst-performing month for the S&P 500 too. And it's not just that the ninth month more often than not posts negative monthly numbers. The declines are more severe, as there were 4 declines of 7% or more for September over the past 20 years.

Those large declines rank September #2 as the most volatile month – the #1 distinction belongs to October. So it stands to reason that with increased volatility so far in 2021, investors can reasonably expect the next two months to bring even more volatility.

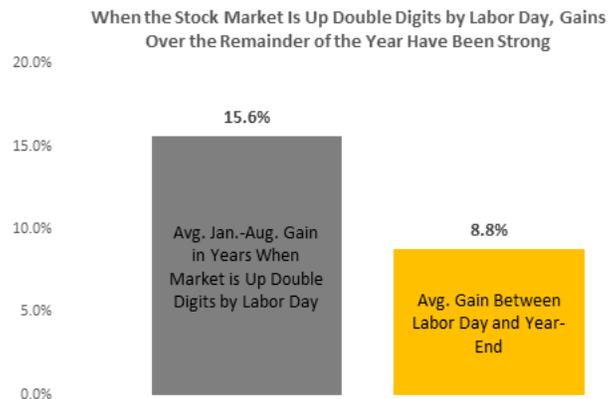


Source: Bloomberg, CBOE Volatility Index 2001-2021

Let's Focus on the Positive

The S&P 500 has risen more than 20% through the end of August this year, which is the ninth year since 1991 in which the stock market was up more than 10% by Labor Day.

Looking at those other 8 years, investors saw that the S&P 500 posted an average gain of 8.8% from September to the end of the year. So maybe 2021 will be the same?



Source: Bloomberg, S&P 500 price return 1991-2021.

Advice from Mark Twain

As these numbers show, the September Effect is simply not a very good predictor of stock market performance.

Maybe instead investors should heed the words of Mark Twain, when he said:

"October. This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February."