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How Seasonality Has Changed

***e*Research Corporation** is pleased to provide a weekly commentary, authored by Tom McClellan, entitled "The McClellan Chart-In-Focus", which is a free technical analysis article published each week.

In this article, Mr. McClellan looks at various factors that influence the 'seasonality" of stocks.

The article is reproduced below, beginning on the next page, or you can use this link to go to the article directly: <Ctrl-Click> **HERE**

You can also visit the McClellan Financial Publications Home Page at the link below. This is a subscription service, and there are two publications which can be subscribed for: (1) **The McClellan Market Report**; and (2) **The Daily Edition**.

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August 9, 2018

The McClellan Chart-In-Focus

by Tom McClellan (bio at end)

How Seasonality Has Changed

We all know about the factor of seasonality, and especially about how it is distilled into the bit of TV news wisdom, "Sell In May and go away".

That phrase has been around for decades, originally supposedly referring to traders in England who would "Sell in May and go away, and come back on St. Leger's Day". This referred to the custom of aristocrats, merchants, and bankers who would skip town and go to the country during the hot months, returning for the St. Leger's Stakes, a horse race held in mid-September. Source: Investopedia.

It just happens to be a fun rhyme for the U.S. stock market, minus the St. Leger's Stakes reference, but only during the past couple of decades. Years ago, seasonality did not work that way, which is what I explore with this week's chart.

For years I have employed a file of data I created going back to 1976, a start point chosen so as to have a decent representative sample of what seasonality looks like. I also elected to omit the enormous bear market year of 1974, and its enormous rebound year of 1975, neither of which makes for a good contribution toward what "normal" looks like.

Creating an annual seasonal pattern requires several mathematical steps. One must first chop up the data into 1-year chunks of time. Next, one must equalize each of the years, as best as is possible, so that the years one is examining are as close to the same as possible. Back in the 1970s, there were 253 trading days per year, and now it is 252 due to a change in holidays. And, then, in years like 2012, when Hurricane Sandy shut down trading for a couple of days, there are days missing. All of these require adjustments.

I also leave out 1987 entirely, because the height of the peak that year and the depth of the October 1987 crash tend to drown out the voices of the other data. 1987 is not a good example of "normal" market behavior.

Next, each year's data has to be reset to reflect a percentage change from the start point. Averaging together a year when the DJIA is above 20,000 with ones when it is below 1,000 makes no mathematical sense, and so we have to adjust for that.

Once each year's data is fitted in a Procrustean fashion to our ideal year, we can then then average all of the years together to get an ideal average pattern of what "seasonality" looks like. But this is only the starting point for doing any meaningful analysis.

Throwing all possible years together into one average pattern can miss important information, such as a shift in the nature of seasonality. That is the point behind this week's chart. See the next page.

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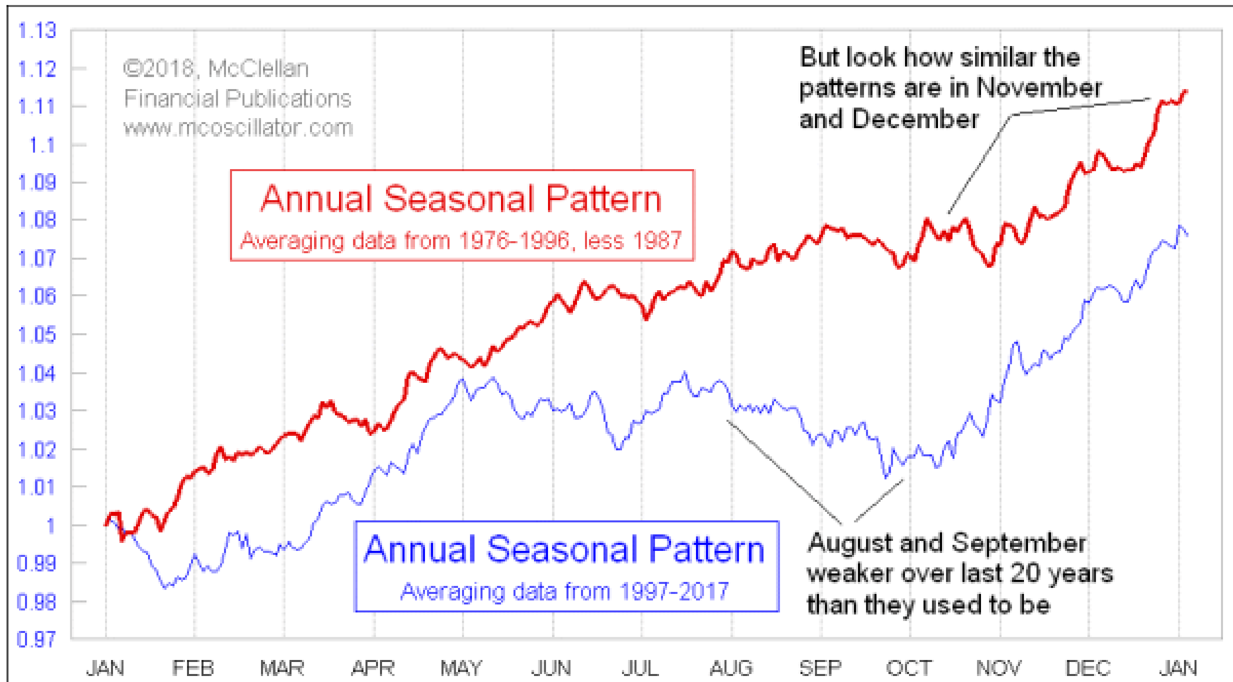

In the 1970s and 1980s, there was not a lot of difference in the months of the year. The August and September weakness we are all aware of now really was not a relevant factor in that earlier period.

This is fascinating, and a sign that we might not all understand as much as we think we know about what drives price behavior. Among the theories offered for why summer to autumn weakness is a relevant factor is that financial liquidity gets tied up in the agricultural futures market, as money needs to be available to pay farmers for their harvests each fall, taking it away from the stock market. But if that factor is not present for a 20-year period, it is probably not a relevant and enduring factor.

Getting to the "why" is much less important than establishing the "is". And the "is" always trumps the "why", and also the "should". The last 20 years' data show that August and September have become pretty consistently weak months for the U.S. stock market.

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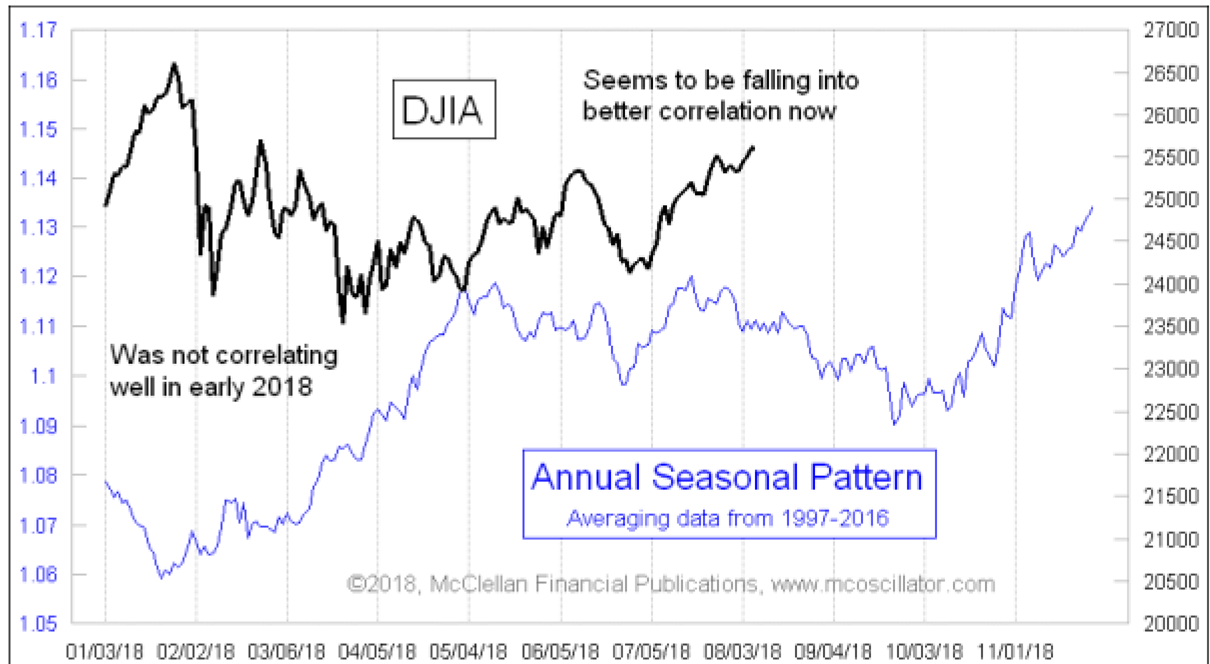
Here is a current chart of the DJIA in 2018 versus the pattern of the last 20 years:



The correlation this year was not all that great in January and February 2018, when the stock market was undergoing a "rogue wave" event that skewed its normal behavior. Rogue waves happen in the ocean, and in the stock market, and can throw off "sea level" for a while.

They can also destroy ships, as well as ETNs like the inverse VIX product, XIV, which blew up with that January blow-off and February crash.

Since about mid-March, though, the DJIA has been working to get back on track with its normal Annual Seasonal Pattern. Now we are entering the weakest period of August to September, when at least the recent history says that the stock market runs into trouble. But we can perhaps ride out the difficulties which appear with the knowledge that after the mid-September average bottom point, we will be entering the period of strong seasonality again.

Tom McClellan, Editor,

The McClellan Market Report

BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* is provided on the following page.

ABOUT THE AUTHOR

Tom McClellan

Tom McClellan has done extensive analytical spreadsheet development for the stock and commodities markets, including the synthesizing of the four-year Presidential Cycle Pattern. He has fine-tuned the rules for inter-relationships between financial markets to provide leading indications for important market and economic data.

Tom is a graduate of the U.S. Military Academy at West Point, where he studied aerospace engineering, and he served as an Army helicopter pilot for 11 years. He began his own study of market technical analysis while still in the Army, and discovered ways to expand the use of certain indicators to forecast future market turning points.

Tom views the movements of prices in the financial market through the eyes of an engineer, which allows him to focus on what the data really say rather than interpreting events according to the same "conventional wisdom" used by other analysts.

In 1993, he left the Army to join his father in pursuing a new career doing this type of analysis. Tom and his Father spent the next two years refining their analysis techniques and laying groundwork.

In April 1995 they launched their newsletter, The McClellan Market Report, an 8-page report covering the stock, bond, and gold markets, which is published twice a month. They utilize the unique indicators they have developed to present their view of the market's structure as well as their forecasts for future trend direction and the timing of turning points.

A Daily Edition was added in February 1998 to give subscribers daily updates on their indicators and also provide market position indications for stocks, bonds, and gold. Their subscribers range from individual investors to professional fund managers. Tom serves as editor of both publications, and runs the newsletter business from its location in Lakewood, WA.

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