Halloween and 4th Quarter Market Performance

Will the fourth quarter bring investors a trick or a treat?

The final three months of every calendar year should theoretically be a great time of year for the stock market. It is the time of year when consumers spend the most money. That in turn means businesses are selling the most stuff. And when the two are combined, it means the economy should grow the most.

But, at the end of the first month of the final quarter of every year, investors also have to deal with Halloween. And that's the time of year that news outlets love to out-scare each other with their dire end-of-year market predictions. Just type "October Market Spook" into Google if you're having trouble sleeping at night.

Making matters worse, most investors also remember the fourth quarter of last year. And make no mistake, it was a quarter that certainly spooked investors.

Fourth Quarter of 2018

For the fourth quarter of 2018, stocks were hammered and pushed the indices to their worst performance in over a decade. The S&P 500 and DJIA plunged 13.97% and 11.8% in the final three months of 2018, respectively, their worst performances since 2011.

NASDAQ cratered 17.5% in the fourth quarter last year, its biggest quarterly fall since 2008. December alone was awful, with all three indices losing about 9% in that month alone.

But what if we ignored last year and looked at the market from longer-term perspective? Should we fear the markets in the fourth quarter or worry more about the other three? Well, that's exactly what Kensho, a market data analysis platform, set out to answer.

The Past Decade

The fact is that the fourth quarter has been the quarter with the highest average gains over the past decade.

According to Kensho, excluding the fourth quarter of 2018, investors saw that:

- The DJIA has averaged a 5% gain in the final three months of the year over the past 10 years;
- The S&P 500 Index averaged a 4% gain in the final three months of the year over the past 10 years;
- Both the S&P 500 and the DJIA traded positively 80% of the time.

Further, of the 11 S&P 500 sectors that have performed the best during the final three months of the year, the winners were Financials, Industrials, and Materials – all of which posted returns north of 6% and traded positively 90% of the time.

The Past Three Decades

Let's go back even further and look at the fourth quarter's performance since 1989. Guess what? The fourth-quarter track record over the past 30 years shows similar average performance.

Over the past three decades, investors saw that over the final three months of the year:

- The DJIA gained an average of 4.3%;
- The S&P gained an average of 3.6%;
- NASDAQ gained an average of 4.7%.

And the Industrials and Materials sectors were again the top performers over the 30-year fourth quarter periods as well.

What Does That Mean for 2019?

The analysis from Kensho gives us perspective, but obviously can not predict market performance for the rest of the year.

Instead, investors should look for current economic data to give guidance, including numbers that cover:

- Consumer Spending
- Consumer Confidence
- Unemployment
- Wages
- Retail Sales
- Housing Starts
- GDP
- Consumer Price Index
- Interest Rates
- Business Inventories
- Manufacturing Levels

Understanding and interpreting these economic indicators will help an investor better understand current market environments much better than reviewing 30 years of old data.

Further, when examining individual companies, start with a company's most recent earnings report and work your way back to its annual reports.

And before you invest, make sure you use your financial advisor as a sounding board for further discussion and analysis. Because your financial advisor likely has data to share that you don't have access to. And your advisor can ensure that your decisions are in-line with your long term financial planning goals.