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Historical Returns for September are “Golden” but Domestic Equities are Still on Top

The markets have been, well, resilient over the course of the past few years despite many macroeconomic events and uncertainties, from trade war talks to turmoil in Turkey, and while many have been calling for a market collapse for years, the market has been telling us differently. The indicators and charts that we look at on a day-to-day basis are designed to do just that, listen to what the market is telling us, as opposed to trying to tell the market what to do. Despite the month of August typically being a slow month in the market, as it is the last of the traditional summer months, the markets remained, well, resilient. The S&P 500 Index (SPX) and the Nasdaq-100 Index (NDX) were up 3.03% and 5.84%, respectively, in the month of August. The Nasdaq-100 Index is now up more than 16% on the year (through the end of August) and the S&P 500 is up more than 7%. With that said, we have now turned the calendar to September.

Historically, September has been the single worst performing month for the S&P 500 Index (SPX), the Dow Jones Industrial Average (DJIA), and the Nasdaq (NASD) (source: Stock Trader's Almanac 2018). The Almanac says “September is when leaves and stocks tend to fall; On Wall Street it’s the worst month of all.”

As a result of the poor equity performance, many investors look for opportunities in assets with low correlations to equities in the month of September. One asset in particular that receives a lot of credit for helping investors through this frustrating month is gold, and the numbers below support this statement. Gold has posted a positive return in 21 out of the 31 Septembers since 1987. In other words, September has been a positive month for gold investments about 68% of the time. The average gain for gold during all 31 Septembers measured comes out to 1.93%, with an average of 4.98% during positive Septembers.

In the table below, you will also see the historical September returns for different asset classes as far back as data exists in our system. Not surprisingly, areas like gold, crude oil, bonds, and real estate have provided the best returns. In fact, each asset class (with the exception of US large cap stocks and crude oil) has a greater historical probability of producing a gain for the month of September than it does at producing a loss. However, up versus down is just half the story -- the degree of those moves is another thing to be considered. Take a look at the two international equity proxies in the table (the developed and emerging stock indexes). Even though they have historically posted a gain more than 50% of the time, the losing years outweigh the winning years in terms of magnitude of movement. For example, developed international stocks have seen gains in 55% of the Septembers going back to 1980, producing an average return of 3.8%. However, during the 45% of the years when this index was down during September, the average loss was -5.44%. As a result, the average return for the month of September is in the red at -0.35%. Similar numbers can be seen for US small cap stocks as well.

Historical September Returns

	Gold	Crude	Bonds	Real Estate	Int'l Stocks (Developed)	Int'l Stocks (Emerging)	US Stocks (Large Cap)	US Stocks (Mid Cap)	US Stocks Small Cap
Total Septembers	31	22	31	25	38	30	90	37	39
# of Up Septembers	21	11	18	14	21	17	41	19	22
% of Up Septembers	68%	50%	58%	56%	55%	57%	46%	51%	56%
Average Gain	4.98%	10.54%	0.85%	3.57%	3.76%	5.71%	3.26%	3.59%	3.52%
# of Down Septembers	10	11	12	11	17	13	48	18	17
% of Down Septembers	32%	50%	39%	44%	45%	43%	53%	49%	44%
Average Loss	-4.48%	-7.40%	-0.81%	-4.11%	-5.44%	-7.54%	-4.68%	-4.87%	-5.37%
Average % Change	1.93%	1.57%	0.18%	0.19%	-0.35%	-0.03%	-1.02%	-0.52%	-0.35%

Legend:

Gold - London Gold (UKGOLD)
Crude - NYMEX Crude Oil (CRUDE)
Bonds - Vanguard Total Bond Fund (BND)
Real Estate - iShares DJ US Real Estate (IYR)
Int'l Stocks (Developed) - iShares MSCI EAFE (EFA)
Int'l Stocks (Emerging) - iShares MSCI Emerging Markets (EEM)
US Stocks (Large Cap) - S&P 500 (SPX)
US Stocks (Mid Cap) - S&P 400 (MID)
US Stocks (Small Cap) - Russell 2000 (RUT)

Our discussion of these historical September biases is not intended to contradict the fact that Domestic Equities remains the number one ranked asset class in DALI, with Small Cap Growth remaining the strongest style box therein. Rather, this hopefully provides some perspective on market movement during this time of the year. - Pullbacks in the equity market are not uncommon during this time of the year, nor are rallies from the laggard areas of the market, like gold. As we head through the last month in the third quarter, the US Equity market remains on solid footing from a technical perspective, as the trends of all of the major US Equity indices are positive. Further, more than 70% of stocks in the S&P 500 are trading in positive trends today.

While in many ways July was a continuation of many trends already in place this year, there were some areas that bucked their longer term negative trends and experienced near-term rallies. The most notable areas came from outside the US, specifically Latin America and Brazil. The iShares MSCI Brazil ETF (EWZ) was up nearly 13% in the month of July; however, is still down more than 12% on the year. Similarly, the iShares Emerging Market ETF (EEM) kept pace with the S&P 500 (SPX) in July with a return of 3.53%, is still down 6.35% year-to-date, despite this rally. On the other hand, Crude Oil (CL/), which has been a positive spot in the markets this year with an 11% gain year-to-date (thru 8/9/18), lost 7.5% in the month of July. Crude continues to trade in a positive trend today, but from here, a move to $58 prices would change the trend back to negative for the first time in over a year.

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