CAPITAL INVESTMENT COUNSEL

The Columns

October 2024

Anyone remember those rough selloffs in early August? I sure do. I was catching a flight to San Francisco and up early at 4:30 a.m. My stomach turned when I saw those premarket quotes—it looked like prices had taken a bungee jump off Niagara Falls. It wasn't fun at the time, but the best buying opportunities rarely are.

Looking back, though, those two panic-driven selloffs turned out to be more of a trampoline for the market. Both August 2nd and 5th were what we call 90% down days, meaning 90% of the market volume was on the downside.

Those days can feel painful, but they often serve as a cleansing moment, shaking out weak holders and setting the stage for a rebound. The data backs this up. In my database, since 1987, we've had 96 instances of 90% down days, and two months later, stocks were higher 81% of the time, with an average gain of 5%. 2024 turned out even better, with stocks up 10% by early October.

I'm going to hit you with a Trifecta of potentially bullish data, so let's go!

Point 1. As of last week, we're down to the last 50 trading days of 2024. The good news? Historically, November and December tend to be strong for stocks. Going back to 1980, the market averaged a 3.3% gain in the final 50 days and ended higher nearly 78% of the time.

Even better, when the S&P 500 was already up for the year at this point—stocks added a little extra oomph and finished the year with an average gain of 4%.

Election years can add a degree of difficulty. In both 2008 and 2012, the market *dropped* in the final 50 days. There was a silver lining to both those sell offs if you took advantage. The following years offered spectacular annual gains: 2009 was up 26% and 2013 was up 32%.

Point 2. When the S&P is up 10% by October, history shows that the market closes the year higher 36 out of 41 times. We're talking about data stretching back to 1900, so there's a solid precedent here. The average gain from this point on is about 5%, and the worst drop: a mere 2%. Given those potential returns, the risk-reward setup looks pretty compelling.

Point 3. The end of October tends to be a good time for the markets. Historically, the S&P 500 has posted gains 70% of the time over the last four days of the month, with an average return of 1.6%. The NASDAQ 100 is even stronger, finishing positive in 17 of the past 20 years during this same period, with an average return of 3.5%.

It doesn't stop there. The first day of November has a positive bias, closing higher 85% of the time. I'm not recommending this as a short-term trade but you may want to use it as a reminder that we're heading into the seasonally strongest part of the year, and these next few days could set the tone moving forward.

The 2024 version of the S&P 500 joins an exclusive club— for only the 15th time in 74 years, stocks managed to deliver both a 10%+ gain in the first three quarters and avoided a single negative rolling quarter. Thanks to Wayne Whaley for the great stat. Historically, these setups point to strength beginning in late October. This dovetails nicely with point number 3 above. From October 27 onward, markets generally rallied through the end of the year, with 93% of prior cases posting gains into December.

On top of that, big reversal days like we saw on September 11th can signal strong gains ahead. Since 1970, similar moves have led to an average 16% rise over the next 12 months. Historically, that's been a solid indicator of bullish momentum. If you find your market outlook becoming too negative, remember the stats above: sometimes strength leads to more strength. And don't forget the bright spot: in a few weeks, the election will finally be over, and we can all get back to our lives! If you have any comments, feel free to contact me at heddins@capital-invest.com or call at 919-656-0836.

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