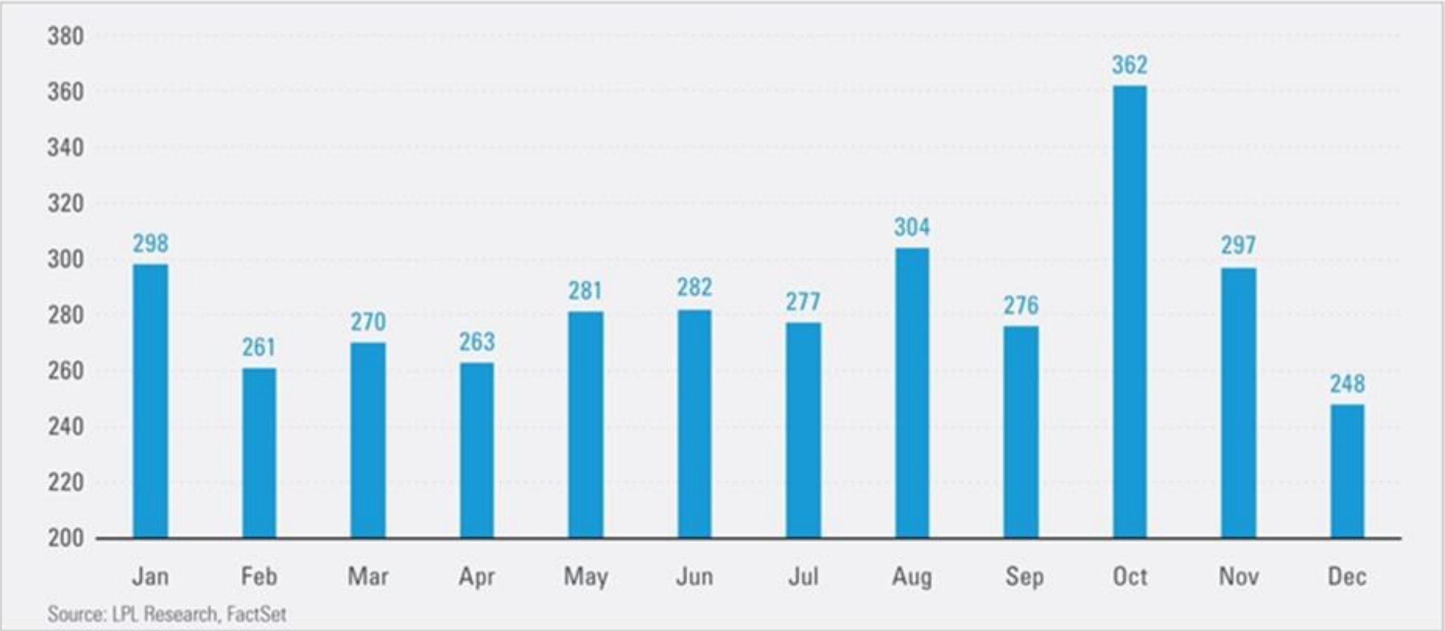
Chart of the Month

October 2018

S&P 500
1% Changes (1950 – 2017)



The Dow Jones Industrial Average plunged 1,378 points on Wednesday and Thursday for a two-day decline of 5.2%. The S&P 500 and Nasdaq both dropped 5.3% over the same period. For the month of October, the three indexes had fallen 5.3%, 6.4%, and 8.9%, respectively, as of yesterday's close.

Although market pundits blamed rising interest rates, trade tensions with China, and nervousness over the upcoming midterm elections for the sell-off, we believe the pullback was just another interim correction on the heels of six straight monthly gains in which the benchmarks rose approximately 10% to 14%.

The S&P 500 had also experienced one of its least volatile third quarters ever. In fact, it was the first year since 1963 without a single daily move of 1% up or down in the summer quarter. In other words, "equity markets were wound tight" as LPL Research noted and a bout of volatility should not be alarming, particularly in October, the month with the most 1% changes since 1950 (as shown in the chart above). While October is known for the crashes in 1929, 1987, and 2008, the average return has been slightly better than the other 11 months. Of note, November and December have produced the two best results with average monthly gains of 1.4%-1.5%.

In the meantime, based on the relationship of the S&P 500 to its 200-day moving average, it appears as if the market is oversold. As depicted below, since the election in 2016, this moving average has marked low points that have triggered reversals and subsequent advances, albeit with wide swings to the upside and downside earlier this year. We would not be surprised if stock prices ebbed and flowed while trying to find a floor prior to a resumption in the upward trend.

Absent a change in goals and objectives or time horizon, we encourage clients to stay the course during turbulent times. While the past may not necessarily be prologue, it is important to understand that bull markets have historically persisted until the onset of the next recession. With no signs of an economic contraction on the horizon, it would be highly unusual if this correction turned out to be the beginning of the end.

S&P 500
200-Day Moving Average

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