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In the Markets Now

Don't let seasonality scare you

We believe in the old saying: a picture is worth a thousand words. Here, we aim to recap recent market action and provide some perspective to investors.

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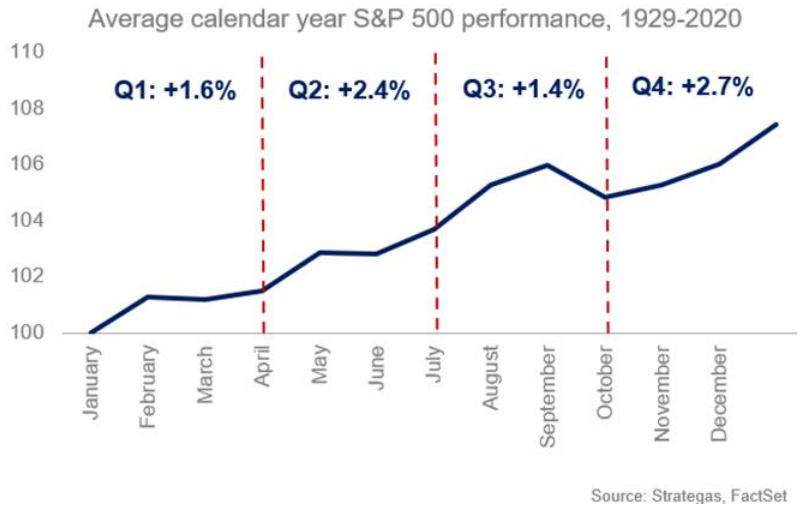
LOOKING AT HISTORIC MARKET PERFORMANCE OVER THE CALENDAR YEAR

From my mid-summer Kentucky point of view, "seasonality" means heat indexes in the 90s and air so thick with humidity you could drink it. In markets, however, seasonality has another meaning. Certain stretches of the calendar year tend to either under- or outperform the longer-term market averages. Think to the popular "Sell in May and go away" maxim that we discussed earlier this year. And as we enter a traditionally more challenging third-quarter stretch, the idea of seasonality is popping up more and more. So let's talk about it.

Last week we showed that strong first halves of the year are followed by strong second halves more times than not, despite a widespread sense that the second halves of those years should be weak (However, we also outlined reasons for tempering expectations for the rest of 2021: recent historic market strength, softening breadth, and—you guessed it—seasonality.) Averaged over the last 90 years, the third quarter HAS been the weakest quarter, but those returns have varied widely by each individual year and (as our chart shows) still been positive on average. **Although it can be tempting to use seasonality to try to time the market, in most cases investors would be better off staying put.**



As mentioned above, not only have Q3 returns been positive on average, but the range of returns is WIDE. For every 1974 (-26%) or a 2011 (-14%), there's a 1970 (+16%) or 2010 (+11%). And while the third quarter might be more challenging to investors, the variance of returns suggests stomaching any heightened volatility is the right call. And perhaps keeping one's fingers crossed for another 1932 (+82% in the third quarter alone!) in the meantime.

That's pretty much it. While we think it's prudent to prepare for weaker returns after a ~100% 16-month run in the S&P, avoiding stocks for an entire quarter doesn't make much sense to us. Not only have returns been healthy on average, but missing out on one of the not-so-rare years where Q3 is strong would likely be devastating to one's overall performance (and psyche). Better to spend time identifying attractive opportunities in the market currently and remain invested. After all, the broad trend of the market is still up, and as our friends at Strategas would tell it, we are in the midst of a multi-decade structural bull market. No sense in trying to fight that tailwind.

Instead, embracing realistic expectations for market returns and adjusting both your portfolio and savings rate accordingly make the most sense to us. Market seasonality is something to expect and prepare for, but not fear. And in the meantime, try to enjoy the changing of the seasons whatever that may mean for your locale—heat waves or pleasant breezes.

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