

The “Granddaddy” of All Market Cycles Is in Full Effect This Year

The study of seasonal cycles in nature is as old as human history. Think of the seasons of the year or the phases of the moon, which rules the cyclical nature of the tides.

And it didn’t take long before folks began to apply seasonal cycles to the financial markets, too.

If that starts to sound like something akin to Ouija board reading, consider this.

In one exhaustive study of market cycles and seasonality – stretching all the way from 1693 to 2009 and compiled from 108 different countries worldwide – researchers Ben Jacobsen and Cherry Y. Zhang from Massey University found in their 316 years of data that:

- Financial market returns are better during the “winter” months (November to April) than in the “summer” months (May to October).
- And the difference is striking, adding up to a 3.4% better average return during winter.
- Plus, this seasonal pattern holds true for markets the world over.

More recently, the seasonal market cycle has grown even stronger, at least here in the United States.

Over the 50 years from 1961-2011, the DJIA averaged 7.2% returns during winter months, while gaining just 0.1% in the summer months. What’s more, steep market selloffs are much more likely to strike during summer (max. drawdown of 54.3%) than in winter (19.4%).

I’m a believer in seasonal cycles, and our new and improved ***Trade Cycles by TradeSmith*** indicators can help **keep you on the right side of the seasonal trends.**

The Seasonality feature of *Trade Cycles* can show you patterns based on all historical pricing data we have for market cycles – or specifically the “granddaddy” of them all: the four-year presidential-election cycle. We know stock market returns are heavily influenced by where we are in this four-year cycle, with stocks often following predictable patterns.

Here's a quick snapshot of the cycle ... Spoiler alert, 2024 is the Fourth Year:

First Year (Post-Election Year): This is often considered a weaker year for stocks. That’s because a new president or Congress might pass legislation that has a negative impact on financial markets.

Second Year (Mid-Term Year): The second year is typically seen as the most challenging period for the stock market. That's because Washington has had two years to screw things up and now faces a mid-term election that often shakes up Congress.

Third Year (Pre-Election Year): Historically, the third year of the cycle has been the most positive for the market. That's because the politicians in Washington want to do whatever they can to get re-elected next year.

Fourth Year (Election Year): In the election year, market performance is generally positive but can be volatile due to uncertainty surrounding the election outcome, and 2024 is an election year.

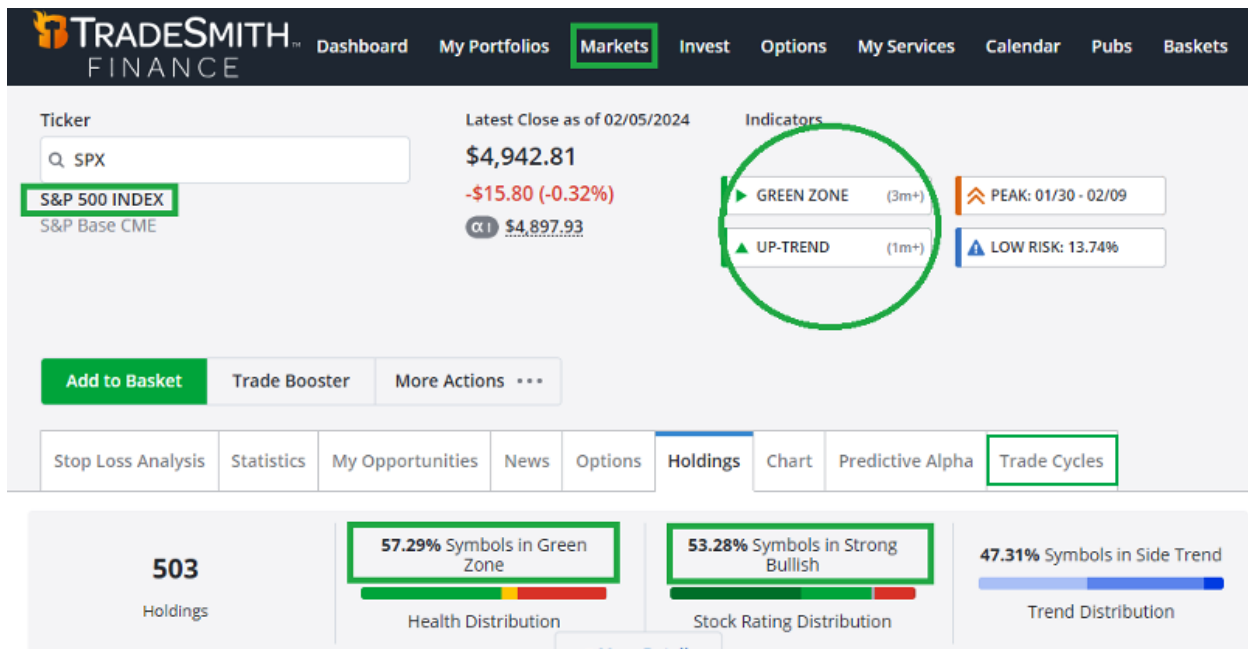
The good news, despite near-term volatility heading into the summer months, is that election years typically have happy endings for the market. The fourth year in this cycle often features a post-election rally as winter begins.

And our *Trade Cycles* Seasonality tools can help you to better time your trading.

That said, I never rely on just one indicator, and you shouldn't either. Always check in with other powerful *TradeSmith* tools like Health, Trend, and the stock's fundamentals to boost your odds of choosing good investments. For short-term trades, which is the focus in **our Trade Cycles newsletter**, indicators like Relative Strength Index (RSI) and Volume at Price (VAP) can help confirm the trade signal after our Seasonality tool puts it on your radar.

Still, having a "roadmap" to tell you how the market's trend may unfold in the year ahead can provide you with valuable timing insights. So, let's take a closer look.

Log into *TradeSmith Finance*. Look for the market tiles at the top and click on **S&P 500** at the top left. That brings you to this page.



Plenty of key information here to take in about the health of the market overall. You can see that SPX is in the Green Zone and in an Up-Trend. Just outside the edge of my screenshot above you'll see SPX has a Bullish rating. Further down, you can see the distribution of stocks in the index by Health, Rating, and Trend.

Now, to access your **Trade Cycles** chart and **Seasonality** graph for SPX, simply click on the **Trade Cycles** tab at far right.

Remember that you'll need to be a **Trade Cycles** or Platinum member to find these chart features within your dashboard. (And if you don't see these tools in your *TradeSmith Finance* dashboard — and would like to — call 888-623-0858 to discuss that.)



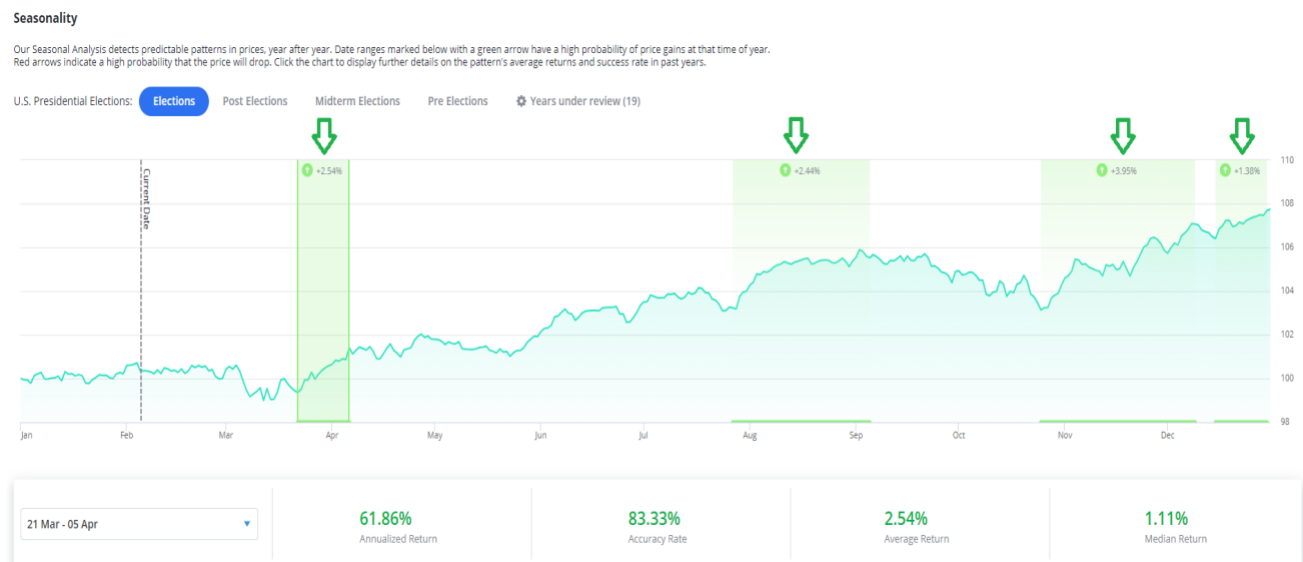
At the top you'll see our standard composite cycle chart (the purple line) which forecasts the market's twists and turns according to four distinct cycle lengths, from short-term to very-long-

term cycles. Blue-shaded areas indicate date ranges where price is likely to swing from low to high, and orange-shaded areas indicate periods when the price is likely to peak and move from high to low.

Scroll down a bit further on the page and you'll see our **Seasonality** analysis. This tool uses some different inputs from the Composite Cycle. Specifically, it searches for predictable patterns in prices according to the four-year election cycle.

Right now, we're in year four, as noted above. That's the year labeled **Elections**. So, this chart is reviewing 19 election years of data on the SPX, starting from the year Dwight D. Eisenhower was elected in 1952 through the last presidential election in 2020.

Here's what it looks like.



At far left you can see the current date marked (vertical black line). And what you can see on either side is a lot of choppy price action, but no real trend. Also, note the dip coming up in March for SPX. That's followed by a high-conviction seasonal rally period from late March into April.

Fortunately, the green shaded areas in the Seasonality chart (marked by green arrows) have a high probability of delivering price gains at that time of the year. And if you see red arrows and red-shaded areas (none on this chart), they indicate a high probability that the price will drop at those times of the year.

Now, click on the high-probability seasonal rally period shaded on the chart from late March into April and you can view the vital statistics in the bar just under the chart. Historically, this

March-to-April time period resulted in average SPX gains of 2.54% in just a few weeks, and was up 83.33% of the time.

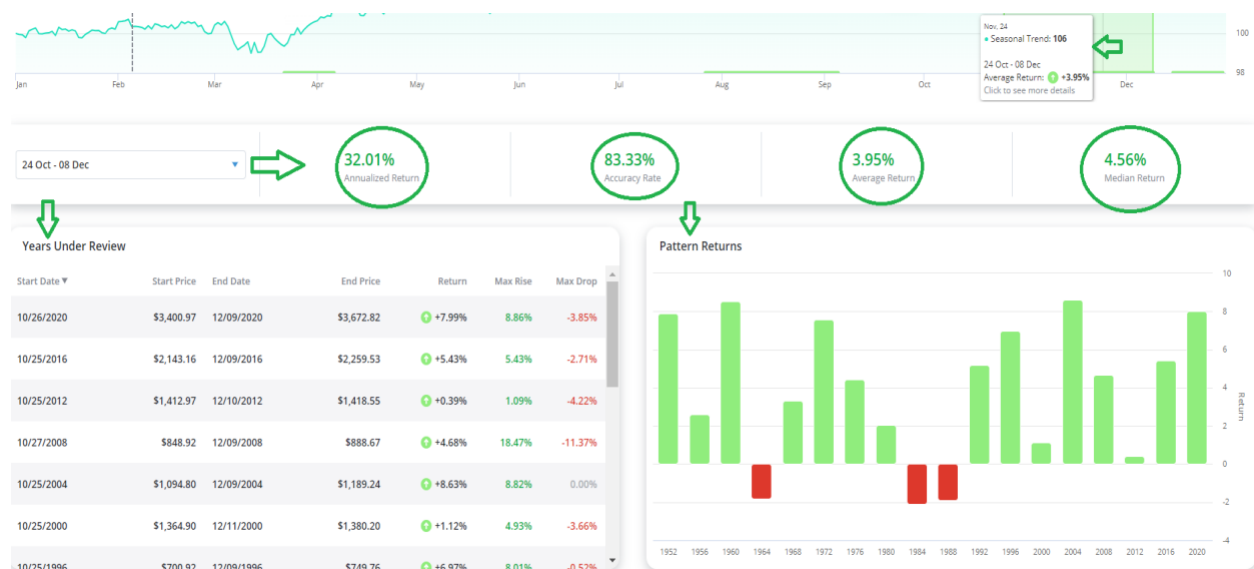
Moving on into the summer months we can see a general uptrend, but still a lot of choppy trading. Peaks in May, June, and July lead to short-term pullbacks. But there are a few more promising periods for the SPX coming in the second half of the year, shown by the other green shaded areas.

A promising seasonal cycle shows up from late July to early September, when SPX is up an average of 2.44%. But after that, it's another downward trend into October.

Finally, SPX shows definite upside improvement as the winter months begin, with two back-to-back bullish periods starting in late October and mid-December.

Click on the shaded area that reads **3.95%**, and you'll see that, according to the seasonal stats on all election years since 1952, this is the best period with the most consistent positive returns all year long.

The period begins in late October and runs through the first week of December. The period has produced average monthly returns of 3.95% (median 4.56%) with an 83.33% accuracy rate. And if you only invested during this seasonal period, the annualized return would add up to an impressive 32.01%!



Also, scroll a bit further down under the chart and you can view the **Years Under Review** data box. This gives you the seasonal period return for each year (at left). Plus, a bar chart to the right labeled **Pattern Returns** shows you gains and losses on a year-by-year basis.

Let's keep moving through our election-year chart with seasonality because there is still the Santa Claus Rally to come.

After a brief dip, the trend extends even higher with another bullish period from mid to late December. Click on it and you'll see this period has produced average returns of 1.38% (median 1.28%) and has an even higher accuracy rate of 88.89%.

You're not locked into looking at the 19 election years since 1952, either. If you want to crunch even more data, we've got you covered.

Simply click on the button labeled **Years under review** and select **All**, as shown below.

Seasonality

Our Seasonal Analysis detects predictable patterns in prices, year after year. Date ranges marked below with a green arrow have a high probability of price gains at that time of year. Red arrows indicate a high probability that the price will drop. Click the chart to display further details on the pattern's average returns and success rate in past years.



Here you can view any and all years for SPX over the past 75 years of available trade data. Or let's say you're only interested in the past 10 years. Select just those years in the dropdown menu that you want to view.

Mike Burnick's Bottom Line: The new Seasonality charts are a great addition to **our powerful Trade Cycles service**. You can do this for any index ETF (like SPX) and also for individual stocks where there is enough data available. It's a clear and simple way to spot seasonally strong periods where you may want to be invested... and find potentially weak periods of the year you may want to avoid.

Good investing,

Mike Burnick
Senior Analyst, TradeSmith