Some Advice: Follow It At Your Own Risk
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Some Advice: Follow It At Your Own Risk

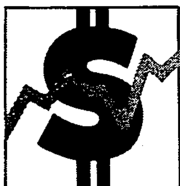
By Robert Sobel

DO YOU BELIEVE in cycles? Are you convinced history repeats itself? Laymen are surprised to learn that most historians don't hold to this view. One once remarked that he was involved in "the science of non-repetitive events."

The matter puts one in mind of the two generals standing at Waterloo. The first remarked the spot was important because Napoleon once stood there, to which the other replied, "No, its significance lies in the fact that Napoleon can never stand here again."

Wars have been lost and political campaigns blundered because participants thought it was a repeat of some other conflict. And investments have suffered the same fate.

Correlation doesn't infer causation. Lawrence Ritter and William Silber demonstrated this nicely in their classic book Money by noting there was no correlation between the money supply and stock market prices from 1960 through 1966, but a near-perfect match between the market and the number of strikeouts racked up by the Washington Senators.



Large numbers of the analytical clan base projections upon patterns they claim to discern in earlier markets and believe recur again and again. Does it work? Occasionally, due to the nature of self-fulfilling prophecy. If a prominent guru says stocks will rise and enough followers act on the advice, their actions can send prices higher. That gathers the guru additional acolytes, and the next time even more follow his or her advice. It can go on for quite a while, the most obvious case being Joe Granville's fabulous series of calls in the 1970s — until he went the wrong way, blundered, and shattered his credibility.

Patterns always have fascinated investors, and doubtless this will continue. In this regard, Yale Hirsch, the perspicacious editor of the annual Stock Trader's Almanac, has come up with several interesting discoveries over the years that might be of interest.

For example, ever since 1964 the market has done best on Fridays and worst on Mondays. The second trading day of the month has had the largest upward move on average, while the five consecutive trading days beginning the last session of the month and going into the first four of the new month, Hirsch says, "distinctly outperform the rest of the days of the month."

November has been the best month for the bulls, while May has been the poorest, says Hirsch. So beware the markets for the next four weeks. He goes on to note that "October, without a doubt, has been the best buying month for short-term traders over the past 34 years." The worst? May (once again) and April. In fact, the most recent issue of Hirsch's Smart Money is headlined: "Horrors! Here Comes the May-June Disaster Area."

How about the impact of elections on the market? Hirsch has found that since 1832 the last two years of a presidential term have produced a much larger market gain than that of the first two years.

Finally, Hirsch has calculated that since the 1880s, years ending in the numbers 5 and 8 have performed better than any other, while the losers have been 7 and 0. How about years ending in 6? Almost neutral, up 7 years, down 3. If you believe in that pattern, a fairly decent 1986 will be followed by a collapse in 1987.

What is one to do? Does history repeat itself? Perhaps it seems to, but it is never quite the same. Mark Twain put it well when he remarked, "History does not repeat itself, but it rhymes."

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