

# THE MONEYLETTER®

STRATEGIES FOR SUCCESSFUL INVESTING

## MARKET WISDOM

September

# THE WEAKEST MONTH

Keith Richards

TRUMP'S TWEETS SEEM TO BE throwing the markets around quite a bit lately. Seriously, sometimes I feel he needs an editor to walk beside him and filter his ever-flowing brain fluctuations. Must he say everything that comes to his mind?

Below is a chart of the SPX. At the bottom of the chart is an indicator called the "Average True Range" (ATR). This indicator measures the range from close to close, then averages that range over a certain period of days. I

chose to look back over 21 days as a fair representation of month-by-month volatility. As you will see on the chart, I've taken a 3-year daily chart of the SPX with its 21-day trailing ATR.

Notice the pancake flat ATR of the late 2016-2017 period. The market was going up on (literally) record-low volatility. In fact, it (the low volatility during that time) was unprecedented, and people thought markets would be bullish forever. Well, like all such events suggesting "now it's different" – the easy markets came to an end.

### The Terrible Tweeter

Since 2018 began, the average trading range (daily movements) has increased significantly. Below, I reprint a chart from Goldman Sachs tracking Trump's trade-related tweets to mid-2018.

Trump's tweeting increased in 2018 (coinciding with the trade talks coming on strongly at that point). And that coincided with an increase in the Average True Range of daily stock movement in the second half of 2018.

Perhaps I am drawing a false relationship between historic Trump tweeting and the markets. This is just an exercise of curiosity of my own. Shoot this down if you wish. I have no solid proof beyond the chart I found on the internet tracking his tweets – and it's not as current as I'd hoped to find. But it's a point worth considering when analyzing the markets. I will note that when the 21-day ATR indicator peaked and reached a level of 140-180 in the past, this usually coincided with oversold/capitulation moments on the market. It's at around 120 right now- so we may see more market malaise before October.

Adding to that is the seasonal tendency for markets to be volatile in September.

According to Technical Analyst and seasonal guru Don Vialoux, "September has been the weakest month for equities, on average, over the past 50 years. The S&P 500 Index has shed an average of 0.7 per cent with only 44 per cent of Septembers showing a positive result. Returns have ranged from a loss of 11.9 per cent in September of 1974 to a gain of 8.8 per cent in September of 2010."

No matter what, I do believe

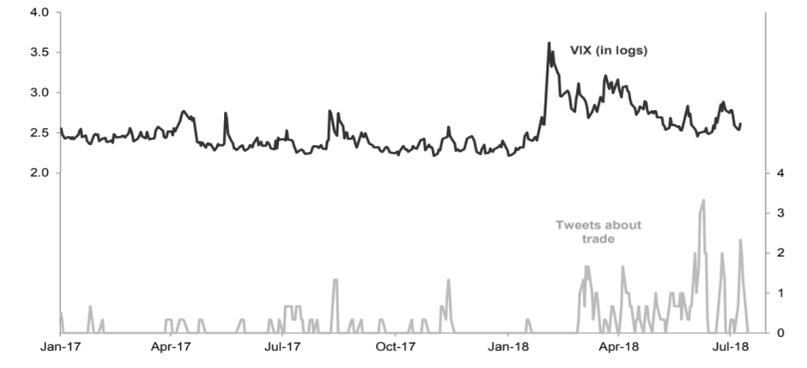


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**Exhibit 1: President Trump's tweets about trade do not show any obvious relationship with the VIX**  
 The top panel shows level of VIX (in logs). The bottom panel shows a daily count of President Trump's tweets containing the words "trade" or "tariff" (3-day moving average)

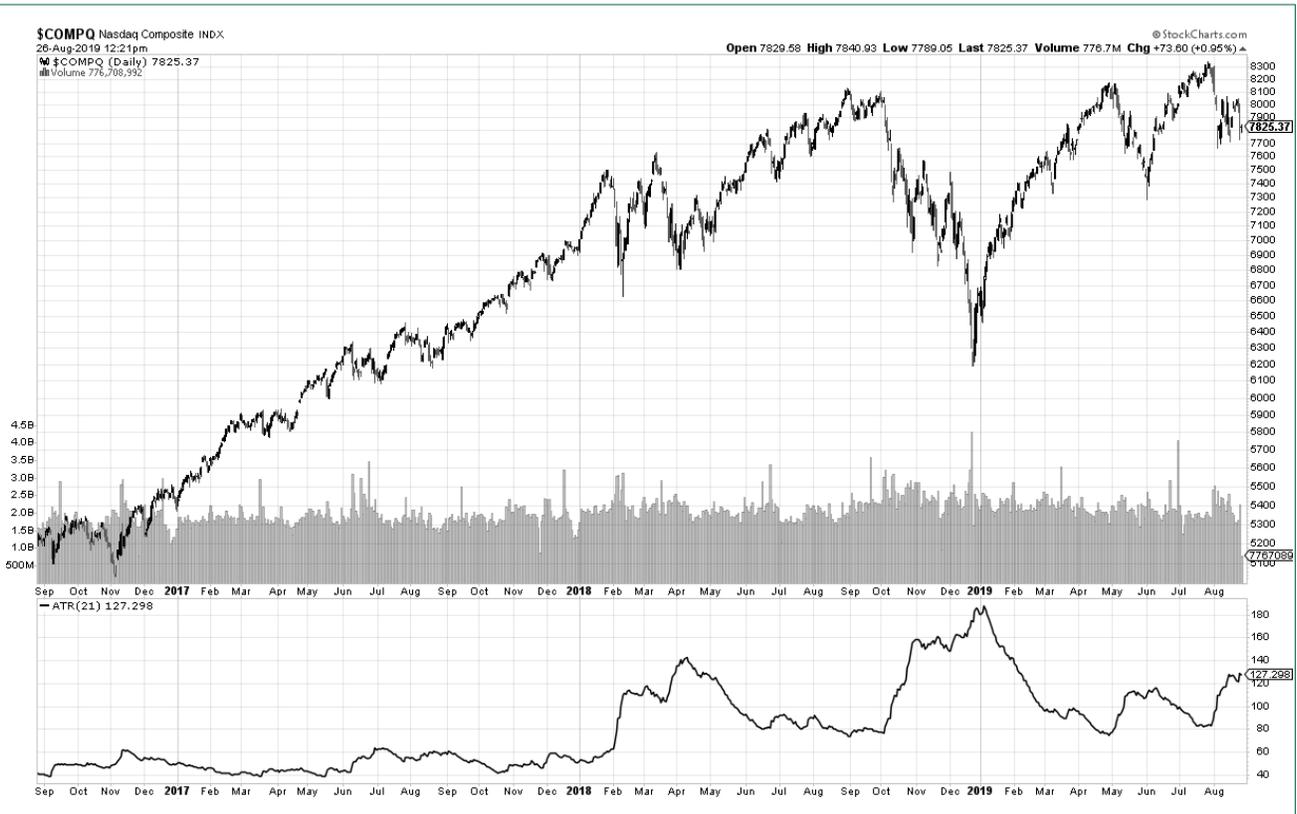


Source: TrumpTwitterArchive, Goldman Sachs Global Investment Research



that if you use Technical Analysis as a tool, I wouldn't be surprised to hear that you had less volatility in the markets than many other investors of late. Our stance at ValueTrend has been to focus on defensive sectors and cash over the past few months. This seems to be paying off...we had a positive August in light of negative market returns. This suggests that markets were in a higher risk/reward situation than normal. In fact, readers of the Moneyletter are encouraged to follow me on Twitter – where you will be notified of my blogs that cover some of the technical factors I am watching. It might be of use to help you assess market risk, and make prudent decisions.

BTW-- Don't forget to register early for the MoneyShow at the Metro Toronto Convention Center. I'm presenting on September 20 at 4:15Pm on something a little different. I'll talk about trad-



ing capitulation candidates—higher risk/return plays. I’m looking forward to this talk! ▼

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