

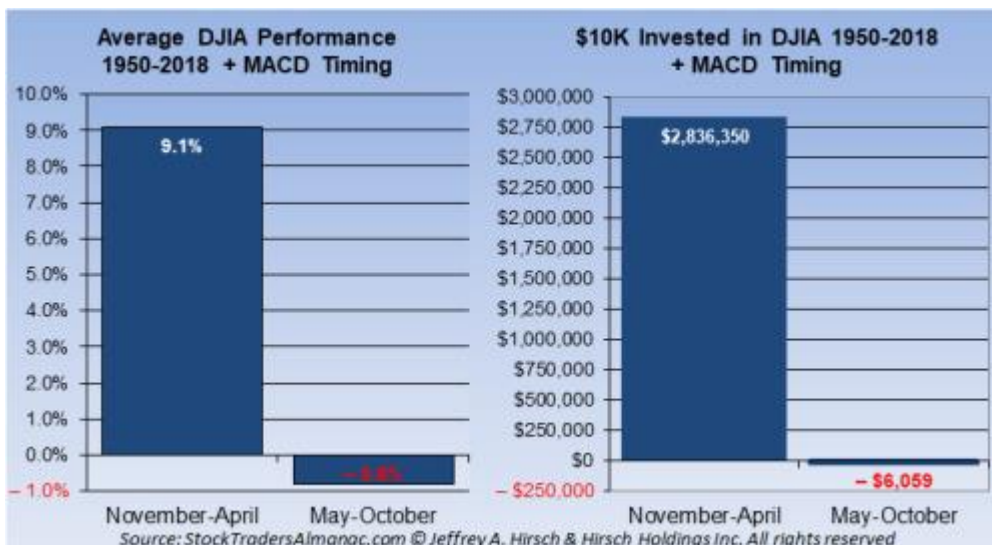
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The Real Santa Rally – Making Money from the Year end stock market rally

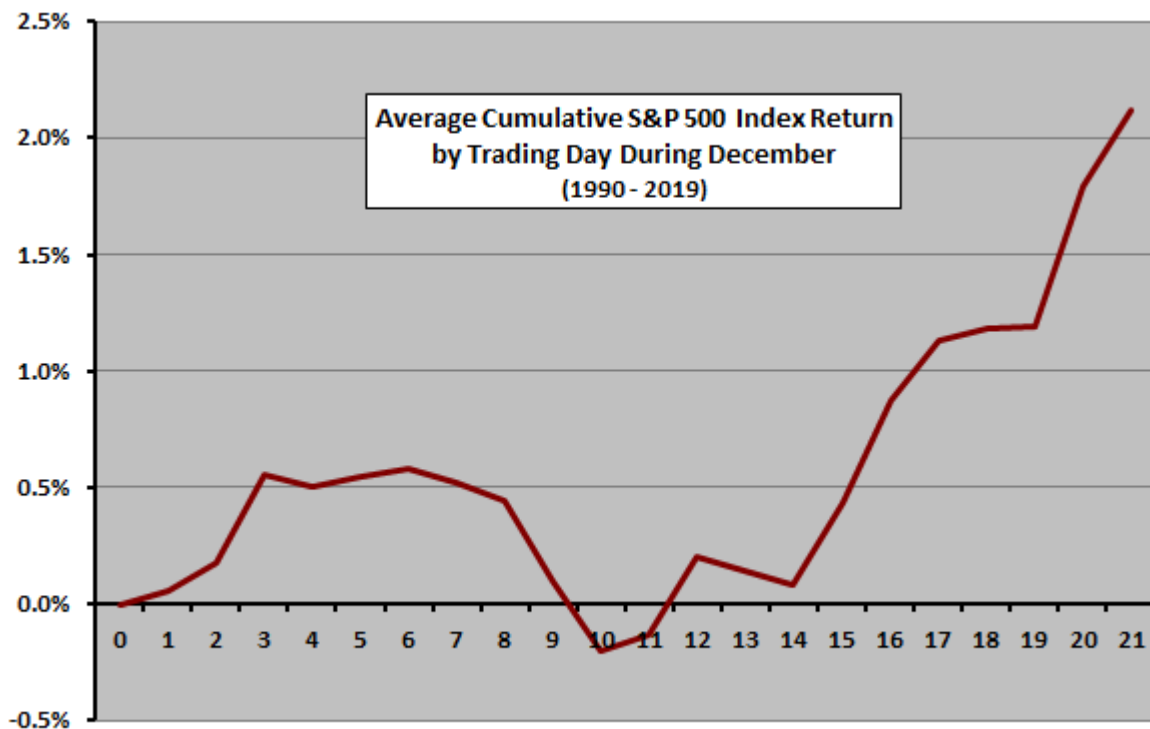


The Santa Claus Rally is often misquoted and any rally in December seems to be classed as the Santa rally which is not correct.

Before we look at this year's Santa Rally let me recap market seasonality. Market Seasonality is the study using historical data to find patterns which may repeat based on the time of the year (calendar effect). For example historically the stock market has seen most of its gains between 1st November and 30th April hence the old saying "Sell in May and go away" – The May to October period tends to be the weakest with September being a very weak month for stocks.



Seasonality is a guide it's not a guarantee but in my 34 years of trading and investing I have found seasonal patterns do repeat and can give you a good guide. Seasonality of course is not just in the stock market, sales of bagged salad and BBQ foods have a direct correlation to outside temperatures and supermarkets monitor temperatures on an hourly basis to anticipate demand, at the same time sales of soup go up on colder days. Car sales tend to go up on sunny days and December tends to be a bad month for car sales as most people don't think about buying a car at Christmas. (not a bad time to buy a car especially a convertible!)



The chart above shows the average month-to-date percentage change in the S&P 500 index by trading day during December from 1990 through 2018. Day 0 represents the November close. The index during December tends to be positive, with the gains coming mostly during the second half of the month (Santa Claus rally).

For 1990-2018, 22 Decembers have been winners and only 7 losers.

In 2018 stocks had a very weak December in fact one of the worst since 1931 yet the Santa rally still made money.

The Real Santa Rally

The Real Santa Rally is in fact a very short window and starts the last 5 full trading days of the year and the first 2 trading days of the New Year.

For December 2019/January 2020 that would be buying before the close 20th of December and Selling around the 6th January 2020. This could be done with a Financial Spread Betting, Buying an Index Exchange Traded Fund such as DIA or SPY. For those in the UK you can also look at IUSA.

DECEMBER 2019						
SUN	MON	TUE	WED	THU	FRI	SAT
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

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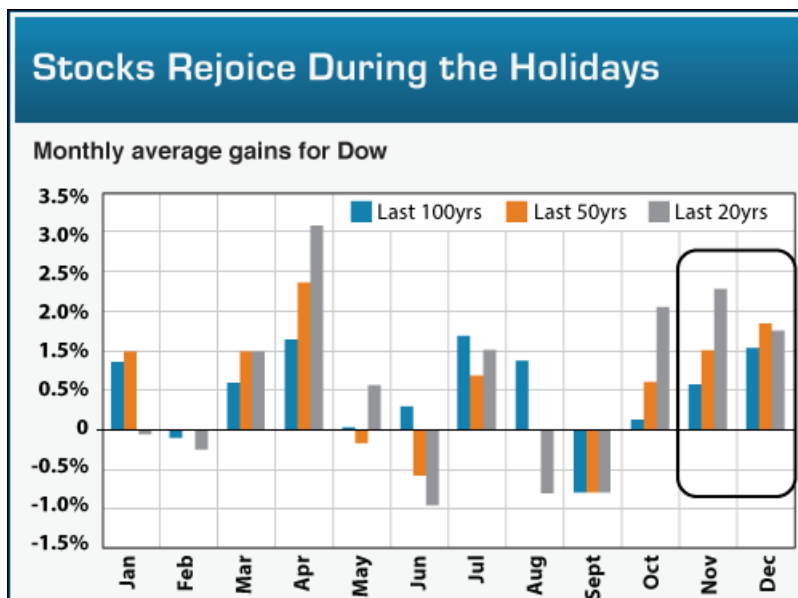
If using Spread Betting you would use the March 2020 contract.

Whilst nothing is guaranteed during those seven trading days the typical gains have been 1.5 - 1.7% over the last 50 years on the S&P and the Dow Jones. Whilst seasonal factors do also play into the UK FTSE100 I have done most of my research has on the US markets so more confident in staying with the DOW and S&P500.



100, 50 and 20 years of history

Below I have used the Dow Jones Industrials as we have 100 years of data as you can see year end is a consistently bullish period over all three periods so it is safe to say that it is still working.



The exact reasons for the gain are not always clear but I think it's a combination of feel good sentiment, lower volumes as many senior traders take the end of the year off, tax related buying and selling, general year end window dressing with the combination of an end of month and year.

Summary

The real Santa Claus rally is fairly short and whilst nothing is guaranteed the last 5 trading days and first 2 trading days of the New Year have a very strong track record. Seasonally the stock market is strongest from November to April.

If you have any questions or comments please feel free to email me at vince@finbets.com

Vince Stanzione

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