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MARKET FACTS

A Historical Look At The Markets
October 19, 2000

Does the "October Bottom" Theory Work?

The study

We examined the three most commonly followed stock market averages to see what each does after a decline of at least 10% from a September closing high to an October closing low. We show the year 2000 with the lowest close through October 18.

Key points

- The public is correct in their assessment that an October bottom is a buying opportunity - especially since 1945.
- In the period since 1945, there is virtually no downside in each average from the final low in October through the end of the year.

What does it mean?

- Unless "this time is different," historical odds favor a decent rally into year-end.
- If stocks continue to sink into November and December, the only precedent is 1929-1932. Not good!!
- A similar study on bonds proved inconclusive.

Dow Jones Industrial Average

Year	September High	October Low	% Decline High to Low	% Change October Low to Nov./Dec. High	% Change October Low to Nov./Dec. Low	% Change October Low to Year End
1901	73.27	63.72	-13.03	4.39	-3.45	1.32
1903	52.75	42.25	-19.91	16.80	-0.24	16.24
1907	73.89	57.23	-22.55	7.93	-7.39	2.66
1917	86.02	74.50	-13.39	-0.16	-11.48	-0.16
1926	166.10	145.66	-12.31	10.36	3.33	7.92
1929	381.17	230.07	-39.64	13.97	-13.64	8.00
1930	245.09	183.35	-25.19	3.79	-14.09	-10.24
1931	140.13	86.48	-38.29	35.05	-14.67	-9.92
1932	79.93	58.47	-26.85	16.35	-4.38	3.06
1933	105.74	84.38	-20.20	20.93	6.21	16.94
1937	173.08	125.73	-27.36	8.12	-9.62	-3.88
1955	487.45	438.59	-10.02	11.36	3.72	11.36
1957	486.13	419.79	-13.65	7.17	1.40	3.79
1974	677.88	584.56	-13.77	15.43	-1.19	5.42
1978	907.74	792.45	-12.70	4.47	-0.91	1.58
1987	2613.04	1738.74	-33.46	15.84	1.61	11.51
1990	2628.22	2365.10	-10.01	11.50	3.21	11.36
1997	7996.83	7161.15	-10.45	13.80	3.35	10.43
2000	11310.64	9975.02	-11.81	????	????	????
Average			-19.72	12.06	-3.24	4.86
Since 1945			-14.48	11.37	1.60	7.92

S&P 500

Year	September High	October Low	% Decline High to Low	% Change October Low to Nov./Dec. High	% Change October Low to Nov./Dec. Low	% Change October Low to Year End
1929	31.83	20.43	-35.82	11.99	-13.56	4.99
1930	21.86	16.90	-22.69	1.78	-14.56	-9.23
1931	13.92	9.10	-34.63	25.82	-15.16	-10.77
1932	9.31	6.60	-29.11	16.36	-1.97	4.85
1933	11.23	8.61	-23.33	19.63	5.92	15.80
1937	15.61	11.10	-28.89	10.09	-8.38	-4.95
1946	15.99	14.12	-11.69	9.77	0.07	8.36
1955	45.63	40.80	-10.59	13.75	3.63	11.47
1957	45.44	38.98	-14.22	7.03	1.03	2.59
1974	71.42	62.28	-12.80	20.76	4.38	10.08
1978	106.99	93.15	-12.94	4.69	-0.71	3.18
1987	323.38	225.06	-30.40	13.63	-0.53	9.79
1998	1066.09	959.47	-10.00	29.43	5.78	28.12
2000	1520.77	1329.78	-12.56	????	????	????
Average			-20.69	14.21	-1.85	5.71
Since 1945			-14.40	14.15	3.38	10.51

NASDAQ Composite

Year	September High	October Low	% Decline High to Low	% Change October Low to Nov./Dec. High	% Change October Low to Nov./Dec. Low	% Change October Low to Year End
1978	139.25	111.12	-20.20	7.23	-0.22	6.17
1979	150.65	132.61	-11.97	13.97	1.15	13.97
1987	452.50	291.88	-35.50	14.15	0.36	13.22
1990	382.44	325.44	-14.90	14.87	1.59	14.87
1998	1760.20	1419.10	-19.38	54.51	26.02	54.51
2000	4234.30	3074.60	-27.39	????	????	????
Average			-21.56	20.95	5.78	20.55

Data Source: Logical Information Machine