It’s The Witching Month

Over the years, October has often been a period when the stock market tended toward unusual volatility. The biggest drop of the past half century, 22%, took place back in October, 1987, and more than a few of those early fall months have seen substantial movements in both directions. Indeed, only a year ago, following a relatively strong opening nine months of the year, the leading averages began a plunge that lasted thru Christmas Eve.

All of which is particularly interesting since the fourth calendar quarter of the year has traditionally been the strongest time for stocks. But here we are in midst of or looking forward to a variety of concerning matters, including a slowing economy, heightened tensions between the two major political parties, the trade war with China, and, oh yes, the upcoming presidential election, now little more than a year away.

Add to that relatively stretched valuations for stocks and a yield curve that is moving toward inversion. The latter is much like what happens to cars when you step on the brakes. The front comes down and the back rises. For bonds, the yield on longer maturities comes down below the level on short maturities. That often signals a slowdown ahead.

And then there’s the ongoing skirmish among the major Wall Street brokerage firms, each of whom is looking to increase market share by cutting costs to investors. The latest development: zero commissions on online trades.

Taking all of this into consideration, one need not be surprised that investors are rattled by what’s going on and what lies just ahead. This seems more likely a time for taking a more defensive posture.

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