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December Almanac: Small Caps Shine and Santa Visits Wall Street

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December is now the number three S&P 500 and Dow Jones Industrials month since 1950, averaging gains of 1.5% on each index. It's the top Russell 2000 (1979) month and third best for NASDAQ (1971). In 2018, DJIA suffered its worst December performance since 1931 and its fourth worst December going all the way back to 1901. However, the market rarely falls precipitously in December and a repeat of 2018 is not highly likely. When December is down it is usually a turning point in the market — near a top or bottom. If the market has experienced fantastic gains leading up to December, stocks can pullback in the first half of the month.

In the last seventeen election years, December's ranking changed modestly to #2 DJIA, #5 NASDAQ, but S&P 500 remains #3. Small caps, measured by the Russell 2000, have had a field day in election-year Decembers. Since 1980, the Russell 2000 has lost ground just once in ten election years in December. The average small cap gain in all ten years is a solid 3.0%. The Russell 2000's single loss was in 1980 when the Prime Rate was 21.5%.

Trading in December is holiday inspired and fueled by a buying bias throughout the month. However, the first part of the month tends to be weaker as tax-loss selling and year end portfolio restructuring begins. Regardless, December is laden with market seasonality and important events.

Small caps tend to start to outperform larger caps near the middle of the month (early January Effect) and the "Santa Claus Rally" begins on the open on Christmas Eve day and lasts until the second trading day of 2021. Average S&P 500 gains over this seven trading-day range since 1969 are a respectable 1.3%.

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Election Year December since 1950

	Rank[1]	Avg %	Up	Down
DJIA	2	1.4	11	6
S&P 500	3	1.2	14	3
NASDAQ*	5	1.4	9	3

[1] *Based upon the average historical monthly performance of the indices in comparison to other months of the year.*
** Since 1971*

December Vital Stats (1950-2019)

	DJIA		S&P 500		NASDAQ	
Rank[2]	3		3		3	
# Up	49		52		29	
# Down	21		18		20	
Average %	1.5		1.5		1.6	
4-Year Presidential Election Cycle Performance by %						
Post-Election	1.0		0.6		0.9	
Mid-Term	0.9		1.2		–0.3	
Pre-Election	2.7		2.9		4.2	
Election	1.4		1.2		1.40	
Best & Worst December by %						
Best	1991	9.5	1991	11.2	1999	22.0
Worst	2018	–8.7	2018	–9.2	2002	–9.7
December Weeks by %						
Best	12/2/2011	7	12/2/2011	7.4	12/8/2000	10.3
Worst	12/4/1987	-7.5	12/6/1974	-7.1	12/15/2000	-9.1
December Days by %						
Best	12/26/2018	5.0	12/16/2008	5.1	12/5/2000	10.5
Worst	12/1/2008	–7.7	12/1/2008	–8.9	12/1/2008	–9.0
December 2020 Bullish Days: Data 1999-2019						
	3, 10, 15 21-23, 28		3, 9, 15, 16, 22 23, 28		3, 4, 9, 15 22-24, 28	
December 2020 Bearish Days: Data 1999-2019						
	2, 17, 24		17, 31		17, 31	

[2] *Based upon the average historical monthly performance of the indices in comparison to other months of the year.*
[3] *Based on the S&P 500 Rising 60% or more of the time on a particular trading day.*
[4] *Based on the S&P 500 Falling 60% or more of the time on a particular trading day.*

Inside

December Almanac: Small Caps Shine and Santa Visits Wall Street

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This is our first indicator for the market in the New Year. Years when the Santa Claus Rally (SCR) has failed to materialize are often flat or down. The last six times SCR (the last five trading days of the year and the first two trading days of the New Year) has not occurred were followed by three flat years (1994, 2004 and 2015) and two nasty bear markets (2000 and 2008) and a mild bear that ended in February 2016. As Yale Hirsch's now famous line states, "If Santa Claus should fail to call, bears may come to Broad and Wall."

December Triple Witching Week is more favorable to the S&P 500 with Monday up twelve of the last twenty years while Triple-Witching Friday is up twenty-six of the last thirty-eight years with an average 0.26% gain. The entire week has logged gains twenty-seven times in the last thirty-six years.

The week after December Triple Witching is, historically, the best of all weeks after Triple Witching for DJIA and is the only one with a clearly bullish bias, advancing in twenty-eight of the last thirty-eight years. Small caps shine especially bright with a string of bullish days that runs from December 18 to 24.

Trading the day before and the day after Christmas is generally bullish across the board with the greatest gains coming from the day before (DJIA up eight of the last thirteen). On the last trading day of the year, NASDAQ has been down in fifteen of the last twenty years after having been up twenty-nine years in a row from 1971 to 1999. DJIA, S&P 500, and Russell 1000 have also been struggling recently and exhibit a bearish bias over the last twenty-one years. Russell 2000's record very closely resembles NASDAQ, gains every year from 1979 to 1999 and only six advances since.

December Outlook: Year End Rally Powers Ahead

Stocks have been on the rise since the late-October lows in prototypical market seasonality fashion, though NASDAQ has lagged a bit. Honestly, NASDAQ tech stocks deserve a break, they have carried the market for months now as they have driven and supported the stay-at-home economy. This rotation into the reopening-economy big cap stocks and the new highs in the Russell 2000 small caps, which are more domestic-based firms, is encouraging.

The Russell 2000 index of small cap stocks is on a tear, up 18.3% for November alone and hitting a new all-time high in the process. DJIA and NASDAQ are running a distant second for November, though up an impressive 11.8% each. S&P 500's 10.8% November gain is nothing to scoff at either. This is a top-20 monthly percent gain of all time for DJIA and 22nd best for S&P 500 — 3rd best DJIA November and #1 S&P November; and NASDAQ's 23rd best month and 3rd best November. And last but surely not least, this is the Best Russell 2000 Month of all time.

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From the close on November 5, 2020 when our Best Six/Eight Months Seasonal MACD Buy Signal triggered, the major indices are up respectably as well: DJIA +4.4%, S&P 500 +3.2%, NASDAQ +2.6% and Russell 2000 +9.6%. This continues the return of seasonality we discussed last month. November's seasonal upside bias is quite clear in the updated chart on page 3 of S&P 500 for 2020 (right axis) overlaid on the One-Year Seasonal Pattern since 1950 and 1988 (left axis).

November 2020 strength comes on the heels of the perennial September and October weakness we experienced this year, which tracks historical patterns over the past 70-year and 32-year timeframes. With some vision now in the rearview mirror it appears S&P has made a classic late-October low. This October low was also a slightly higher-low than the September low and forms an uptrend line of support.

Before we get too far ahead of ourselves, it pays to remember that the first half of December is often weaker than the latter half, which is also when small cap stocks begin to outperform large caps (the old "January Effect", not to be confused with our January Barometer). However, Russell 2000 November gains may be difficult to outdo.

Then there's the usually strong Triple Witching Week and

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December Outlook: Year End Rally Powers Ahead

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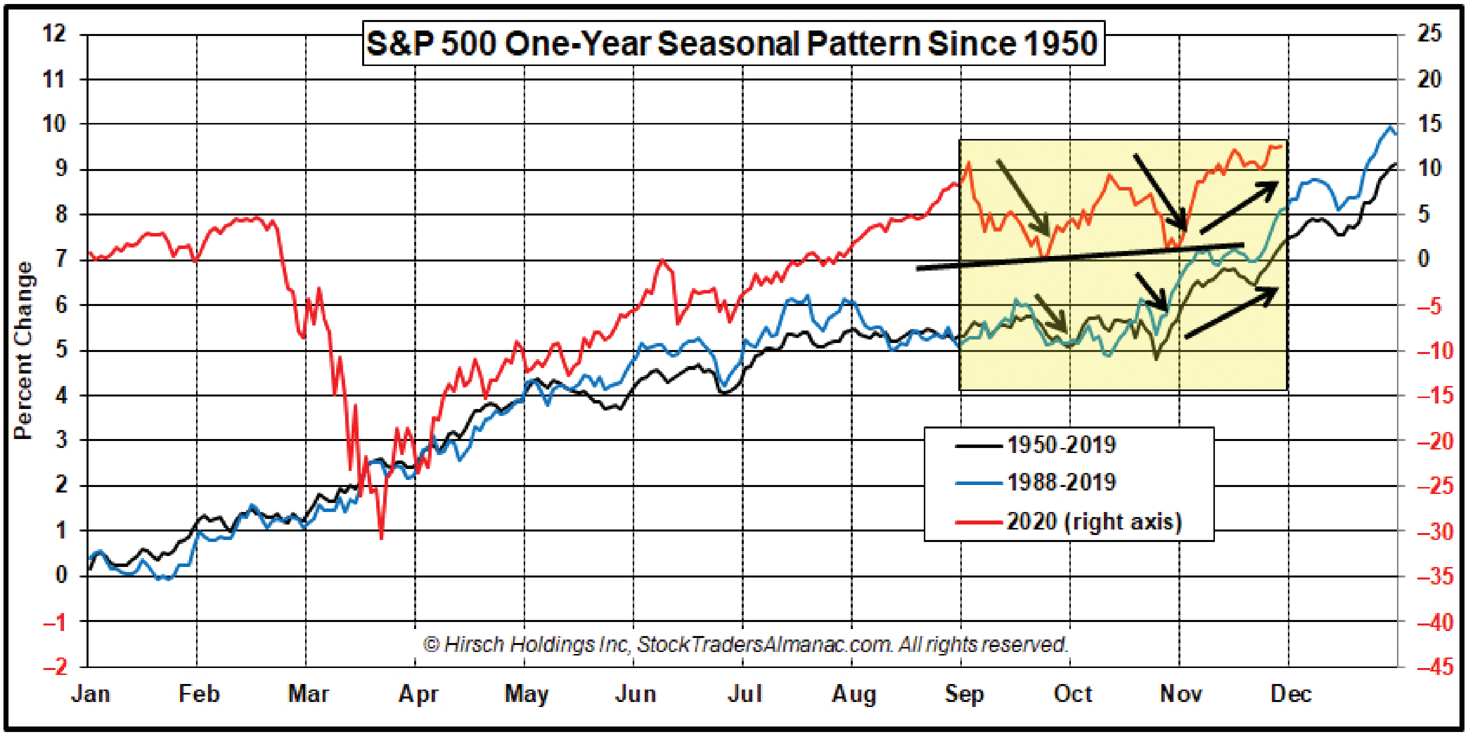
Week After. Our Santa Claus Rally (SCR) begins on Christmas Eve, December 24. The SCR is the last 5 trading days of the year and the first 2 of the New Year and is the first indication of the year to come. To Wit: "If Santa Claus should fail to call, Bears may come to Broad and Wall.

seems to be pleased with how Biden has been preparing his administration and his cabinet selections. There is also renewed hope for another stimulus package. We are encouraged by how resilient the market has remained in the face of rising COVID-19 cases — a testament to the promise of the medical solutions on the horizon and that we are better prepared for any new economic restrictions. The stay-at



Year end bullish seasonality is being buoyed higher by vaccine optimism and news that the Trump administration has officially authorized the Biden transition. And the market

home economy seems to be fusing with the reopening economy and this is positive for the market going into year end and 2021.

Index Definitions: The S&P 500 Index is an unmanaged composite of 500 large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. The Dow Jones Industrial Average ('DJIA') is an unmanaged composite of 30 widely held stocks. The NASDAQ Index is an unmanaged composite of the common stocks and similar securities listed on the NASDAQ Stock Market. The Russell 2000 Index is an unmanaged composite of the bottom 2,000 stocks in the Russell 3000 Index. The Russell 3000 Index is an unmanaged composite of the 3,000 largest publicly held companies incorporated in America as measured by total market capitalization. The Russell 2000 index is widely used by professional investors as a performance benchmark for small-cap stocks. You cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. The Wilshire 5000 is a market-capitalization-weighted index of the market value of all US-stocks actively traded in the United States. As of December 31, 2019, the index contained only 3,473 components. The index is intended to measure the performance of most publicly traded companies headquartered in the United States, with readily available price data. Past performance does not guarantee future results.

Moving Average Convergence Divergence (MACD): A trend-following momentum indicator that shows the relationship between two moving averages of prices.

Santa Claus Rally: Discovered and named by Yale Hirsch in 1972 and published in the 1*973 Stock Trader's Almanac*. Santa Claus tends to come to Wall Street nearly every year, bringing a short, sweet, respectable rally within the last five days of the year and the first two in January. This rally has been averaged 1.3% S&P 500 gain since 1969. Santa's failure to show tends to precede bear markets, or times stocks could be purchased later in the year at much lower prices.

Triple Witch Week: Is the week containing the third Friday in March, June, September and December when stock options, index options and index futures expire on Friday.

January Effect: Is the tendency of small-cap stocks to outperform large-cap stocks in January.

January Barometer: Devised by Yale Hirsch in 1972, and published in the *1973 Stock Trader's Almanac*, the January Barometer states that as the S&P 500 goes in January, so goes the year. This indicator has registered ten major errors since 1950 for an 85.7% accuracy ratio.

Market at a Glance

Seasonal: *Bullish.* December is now the number three S&P 500 and DJIA month since 1950, averaging gains of 1.5% on each index. It's the top Russell 2000 (1979) month and third best for NASDAQ (1971). The "January Effect" of small-cap outperformance starts in mid-December. Santa's Rally begins on Thursday December 24 and lasts until the second trading day of the New Year. In years when Santa Claus did not come to Wall Street, bear markets or sizable corrections have often materialized in the coming year.

Fundamental: *Mixed.* Vaccines are nearly ready, but distribution still remains a challenge. And as we await an approved vaccine, Covid-19 cases are surging, triggering new shutdowns and economic easing rollbacks around the country. As a result unemployment and weekly initial jobless claims remain elevated. The housing market remains firm, but the migration driving gains is likely to slow. Corporate earnings have largely held up in industries and businesses that remained/remain open. More importantly, the outlook continues to improve, and the market is rising because of this.

Technical: *Breaking out.* DJIA, S&P 500 and Russell 2000 all broke out to new all-time closing highs in mid-November. NASDAQ's Thanksgiving breakout is a bullish confirmation. NASDAQ was held back as traders and investors pulled back from this year's pandemic success stocks in favor of names best positioned to benefit from a vaccine. Now that NASDAQ is included in the broad rally it could be an early indication that the rally is gaining momentum.

"NASDAQ's Thanksgiving breakout is a bullish confirmation. NASDAQ was held back as traders and investors pulled back from this year's pandemic success stocks in favor of names best positioned to benefit from a vaccine."

Monetary: *0 – 0.25%.* As expected, the Fed's November meeting announcement did take a back seat to election results as little new was said and no changes to policy were made. However, in the time since that meeting Treasury Secretary did announce that he did not intend to renew or extend the Fed's Main Street Lending, municipal lending and corporate credit programs. They were and still are set to expire at the end of the year. All three programs were established as part of the Fed's COVID-19 response earlier this year.

Psychological: *Elevated.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors stood at 64.6%. Correction advisors stood at 18.2% while Bearish advisors were at 17.2% in the most current report from November 24. There was a brief dip in bullish sentiment at the end of October, but it did not stick as the market quickly rebounded. Historically, holiday and year end cheer have translated into market gains and high levels of bullish sentiment so it would not be surprising to see the same again this year and possibly even higher levels of bulls as positive vaccine news breaks.

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