



Meltdown 101: The down days of summer on the Dow: Why August can be hard on the stock market

By Tim Paradis
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NEW YORK (AP) — Investors might dread August more than kids fretting over the new school year.

In the past 20 years, August has been the worst month for the stock market as many traders step away for vacations — and those left behind grow uneasy for the typically choppy markets of the fall.

This year, the pressure is increased because the Dow Jones industrial average posted its best July in 20 years. Some traders fear the blue chips' rally of 725 points last month has set up the market to give back some of the gains in the coming weeks.

Analysts say it's not always clear what trips up the market in August. But bracing for a difficult month, they say, is wise.

"I don't necessarily understand why it happens but when it happens consistently you need to pay attention to it," said Curtis Teberg, portfolio manager at the Teberg Fund.

Here are some questions and answers about the stock market in August.

Q: Why is August so hard on investors?

A: Stocks can start to run low on gas in late summer because some players jump out of the market to take vacations. The drop in the number of buyers and sellers can leave the overall market more prone to swings. And those who are still in the market are often not as willing to push into new investments, which can cause stocks to drift lower.

"You have a tendency for the market to go down. There's not enough volume to keep it up," said Jeff Hirsch, editor of the "Stock Trader's Almanac," a book that tracks market trends.

In the last 20 years, the Standard & Poor's 500 index, which is the basis for many mutual funds, has posted an average negative return of 0.5 percent in August.

Q: What else makes August tough?

A: With so many people on vacation, there aren't as many ideas being floated around that can give investors new approaches to making money on the markets. Normally, those sorts of ideas play a role in pushing up stock prices.

"There tends to be few bold calls," said Randy Cass, founder of First Coverage, a financial-services research company, referring to analyst recommendations on stocks and the market in late summer.

Q: Could this August be harder than usual on investors?

A: Yes. Corporate profit reports and forecasts last month fanned hopes that the economy is in the early stages of recovering. That sent the Dow up 8.6 percent — as much as stocks might normally gain in a good year. With the market up so much, any pitfalls in August could feel deeper.

"I'm quite nervous about August and September," Teberg said.

The S&P 500 index is up 48.7 percent since March 9. Teberg contends the rise has been too quick and that some retreat is due.

Q: Do the problems seen in recent Augusts make investors more fearful?

A: Yes, analysts say traders are on edge because of what's happened in the past.

Take August 2007, for example. That month, stocks swung wildly as investors worried about cracks appearing in the global financial system. Two hedge funds managed by the now-collapsed Bear Stearns had just imploded, and unease emerged over difficulty accessing credit and bad mortgage loans. The market rose until that October, but the fluctuations in August hinted at growing troubles in the economy.

Investors haven't forgotten.

"You're kind of left with a lot of people sitting in the office staring at their screens, too afraid to go the Hamptons," Cass said. "When volume isn't going to be there, moves are sharper, they're more volatile and they can be more random."

Q: Investors might be more nervous, but how have recent Augusts ended?

A: They haven't been so bad. The last five years has seen Augusts that start out weak but strengthen as more traders return before Labor Day. The S&P 500 index has risen 1-2 percent each of the last three Augusts.

Q: After a wild couple of years in the market, do typical seasonal patterns even still matter?

A: Worries about the economy are dominating trading but history can still play a role. Hirsch is cautious because of the huge July run but also notes that the normally strong November-to-April period was horrible the last time around, so this year's May-to-October stretch could sidestep its usual weakness.

Q: What did some of the worst Augusts look like?

A: In 1998, the Dow tumbled 15.1 percent as investors worried the economy was stalling after seven years of growth. A financial crisis in Asia that spread to Russia

sent investors running. From a peak in mid-July to the end of August the Dow lost 1,800 points, or 19.3 percent.

In August 1990, stocks tumbled 10 percent when Saddam Hussein invaded Kuwait.

Q: Have there been times when it's been a strong month?

A: For sure. The Dow jumped 11.6 percent in 1982 at the end of a bear market, which is generally defined as a drop of at least 20 percent.

Q: Is it just August that is weak for stocks?

A: No. For about the last 30 years the July-to-September stretch has done nothing for investors. In that time, investing \$1,000 into a fund that tracks the S&P 500 index would have produced a return of 16 percent, excluding expenses. That's pretty paltry compared to what you'd get by putting that amount into a low-risk money market fund during the same period — a return of 43 percent, according to Teberg.

Q: Has August produced the worst one-day drop in stocks?

A: No, October holds that distinction — in the "Black Monday" crash of Oct. 19, 1987, the Dow plunged 22.6 percent.