WHAT HAPPENS TO STOCKS AFTER A BIG UP MONTH?

BY BEN CARLSON, CFA
A WEALTH OF COMMON SENSE
MAY 8, 2020

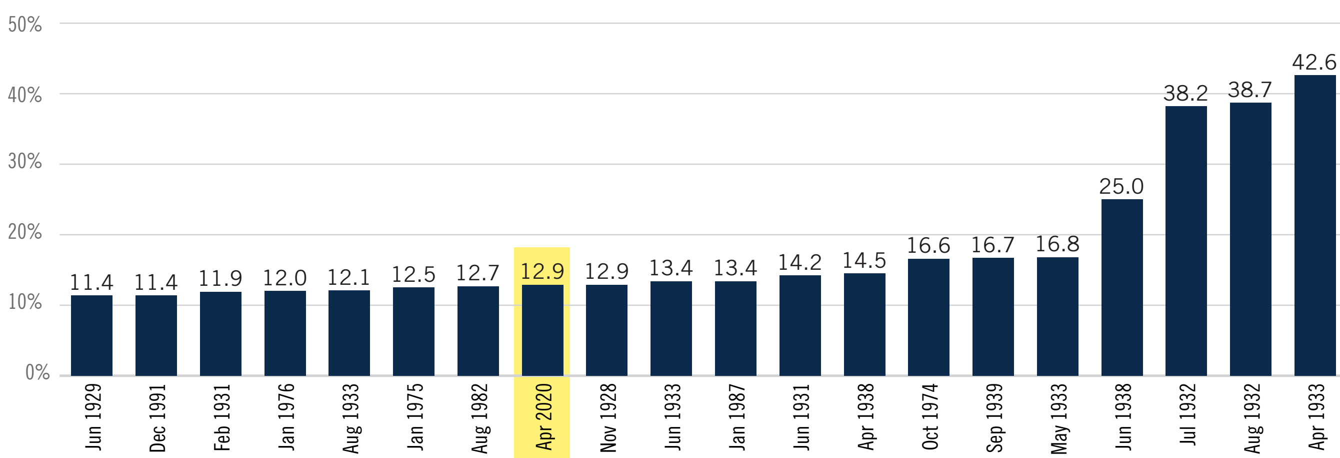
In March, I reviewed what has happened historically to forward stock market returns following the worst down months in stock market history:

Month	1 Year	3 Years	5 Years
Sept 1931	-9.6%	13.1%	118.2%
Mar 1938	35.2%	38.2%	84.5%
May 1940	8.0%	59.7%	118.8%
May 1932	131.3%	152.3%	367.4%
Oct 1987	14.7%	34.1%	96.8%
Apr 1932	54.5%	89.1%	265.6%
Oct 1929	-26.6%	-65.3%	-51.2%
Feb 1933	98.7%	194.5%	154.6%
Oct 2008	9.8%	38.3%	102.6%
Jun 1930	-23.4%	-34.7%	-32.8%
Aug 1998	39.8%	23.0%	13.0%
Sept 1937	-5.5%	-8.3%	-12.3%
Dec 1931	-8.2%	39.3%	175.5%
Oct 1932	36.6%	108.4%	126.5%
Mar 1939	17.6%	-11.5%	49.3%
Sept 1930	-44.7%	-35.3%	-16.3%
May 1931	-62.9%	-10.6%	46.9%
Nov 1929	-16.9%	-62.0%	-39.0%
Sept 1974	38.1%	72.7%	117.5%
Mar 1932	-13.2%	37.9%	218.4%
July 1934	34.1%	124.4%	77.2%
Sept 1933	-3.2%	86.8%	58.9%
Sept 2002	24.4%	59.0%	105.1%
Nov 1973	-23.8%	20.7%	23.8%
Feb 2009	53.6%	97.9%	181.6%
Averages	**14.3%**	**42.5%**	**94.0%**

Past performance is not indicative of future results. Source: Returns 2.0. S&P 500® Index.

Still a little early to circle back on the results, but April gave us the chance to look back at the other side of this coin. April was one of the best months ever for the S&P 500® Index:

BEST MONTHS FOR THE S&P 500® INDEX SINCE 1926



Past performance is not indicative of future results. Source: Returns 2.0.

Here's what happened next in the one, three, and five years following these huge up months of the past:

Month	1 Year	3 Years	5 Years
Jun 1929	-22.8%	-80.8%	-52.7%
Dec 1991	7.6%	20.0%	103.0%
Feb 1931	-50.4%	-27.0%	8.2%
Jan 1976	5.2%	14.0%	64.0%
Aug 1933	-13.7%	65.4%	38.9%
Jan 1975	36.6%	31.8%	87.7%
Aug 1982	43.9%	81.2%	238.6%
Nov 1928	15.5%	-44.1%	-45.2%
Jun 1933	-6.1%	55.9%	35.4%
Jan 1987	-3.3%	32.9%	76.8%
Jun 1931	-67.6%	-19.9%	32.9%
Apr 1938	17.8%	13.3%	61.7%
Oct 1974	26.0%	42.0%	74.3%
Sept 1939	-13.0%	-16.8%	33.8%
May 1933	31.3%	89.5%	48.4%
Jun 1938	-1.8%	0.9%	44.3%
July 1932	73.9%	112.4%	255.6%
Aug 1932	40.5%	57.5%	144.0%
Apr 1933	31.3%	89.5%	48.4%
Averages	**7.9%**	**27.3%**	**68.3%**

Past performance is not indicative of future results. Source: Returns 2.0.

The averages look pretty decent, as well as the ratio of positive to negative results. Following the biggest up months in history, the S&P 500 was positive nearly 60% of the time one year later, almost 75% of the time three years later, and just shy of 90% of the time five years later.

That's pretty good considering the average return was close to 70% in total five years out. Of course, averages tell us nothing about the range of results, which is quite wide here, especially in that nasty 1930s time frame.

Check out the averages of the returns for the S&P 500 following big up months exclusively in the 1920s and 1930s:

Month	1 Year	3 Years	5 Years
Jun 1929	-22.8%	-80.8%	-52.7%
Feb 1931	-50.4%	-27.0%	8.2%
Aug 1933	-13.7%	65.4%	38.9%
Nov 1928	15.5%	-44.1%	-45.2%
Jun 1933	-6.1%	55.9%	35.4%
Jun 1931	-67.6%	-19.9%	32.9%
Apr 1938	17.8%	13.3%	61.7%
Sept 1939	-13.0%	-16.8%	33.8%
May 1933	31.3%	89.5%	48.4%
Jun 1938	-1.8%	0.9%	44.3%
July 1932	73.9%	112.4%	255.6%
Aug 1932	40.5%	57.5%	144.0%
Apr 1933	31.3%	89.5%	48.4%
Averages	**2.7%**	**22.8%**	**50.3%**

Past performance is not indicative of future results. Source: Returns 2.0.

It's crazy to think 13 out of the 20 biggest *up* months occurred just before, during, or in the aftermath of the Great Depression. As volatile as things have been in the markets over the past three months or so, they were like that for more than a decade back then. It's almost hard to believe markets as we know them survived that period.

In this group, less than half of all one-year periods saw positive returns a year later, and five out of the seven negative returns were of the double-digit variety. Going out three years, more than 60% of the time returns were positive, while they were in the black 85% of the time five years later.

So, still pretty decent results, but the dispersion between the best and worst case scenarios can certainly leave an uneasy feeling in your stomach.

There's been plenty of ink spilled on how nasty the crash was in the 1930s, but some of the rallies during this time were almost as crazy as the downturns. When the market finally bottomed in the summer of 1932, stocks were up 38% in July, and then an *additional* 38% in August. That's a gain of more than 90% in two months! Even after that gain, stocks were still up another 40% a year later. I guess you could say stocks were a tad oversold after falling 86% or so.

Obviously, past performance tells us nothing about the future. This crisis is one for the history books, just like that one, but there are too many differences to count. One hard part about investing during such highly volatile periods is that you can talk yourself into just about any scenario.

Sometimes these huge bounces are the real thing. Other times they're a mirage. Many investors assume they're being contrarians right now because they think this is a dead cat bounce within the context of a much larger crash. Others assume they're being contrarian right now because they think the worst is over and the market will be able to look past the carnage in the economy. Then there's the group that professes to have no clue where we stand in terms of the severity of this bear market.[1]

One of the things I've learned from studying historical downtrends and volatile markets is they tend to open you up to a wider range of outcomes, both to the downside *and* the upside.

VIRTUS INVESTMENT PARTNERS

To learn more, please contact us at 800-243-4361 or visit virtus.com.

[1]Count me in this last group that has no clue where we stand. I just can't tell if that makes me a contrarian or part of the crowd.

The **S&P 500® Index** is a free-float market-capitalization weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The index is unmanaged, its return does not reflect any fees, expenses, or sales charges, and it is not available for direct investment.

All investments carry a certain degree of risk, including possible loss of principal.

Not insured by FDIC/NCUSIF or any federal government agency. No bank guarantee. Not a deposit. May lose value.

Distributed by **VP Distributors, LLC,** member FINRA and subsidiary of Virtus Investment Partners, Inc.