Prudential Investment Managers

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What's the best month for investing?

Have you ever wondered if there's an especially "good" or "bad" time of the year to invest? Maybe you've heard old adages like: "the October Effect", "the January Effect", the mysterious "December sell-off" or "Sell in May and go away". However, you shouldn't be surprised to know that, although some of these sayings are based on a bit of fact, in the main they are simply superstitions. So it wouldn't be a good idea to read too much into them and try to "time" your investment based on such fallacies, as this could lead you to make some bad investment decisions.

In the "December sell-off", for example, the thinking goes that US investors typically sell off their shares during December in an attempt to outsmart the tax man, selling at a loss to help offset their realised capital gains. Then – in theory – January brings a seasonal rally, with stock prices increasing as those same investors start buying again. As for the "October Effect"… well… that's based on a handful of disastrous dates in history all happening in the month of

October - the Panic of 1907, 1929's Black Monday, Black Tuesday and Black Thursday, and of course 1987's Black Monday.

"Sell in May and go away" warns investors to sell their stocks in May to avoid a seasonal decline in equity markets over the US summer and autumn seasons, and then buy back again in November. In South Africa, meanwhile, you might hear whispers that February is a good month for investing (or a bad month, depending on who you ask) because of uncertainty around the annual Budget Speech. And then September's when JSE giant Naspers announces its results, which could either be good news or bad news for investors.

The truth is, most of this is based on gut feel and coincidence. Historical data shows that the October Effect simply isn't a thing: if anything, statistics would suggest that October is more likely to mark the end of a global bear market than the beginning. Meanwhile, although history does bear out the idea of sitting out the summer and autumn in the US markets, this trend hasn't held true since 2013.

To understand why calendar months don't really play a role in stock prices, you have to understand the basics of how stock prices are determined. In most cases, it comes down to supply and demand. If more people want to buy a stock than sell it, the price will increase because of rising demand. Conversely, if there is a drop in demand (or rise in supply) with more sellers than buyers, the share price will also drop.

But there are other factors which also cause fluctuations and volatility in the market. Those could be anything from political uncertainty (like elections), more restrictive regulations, external factors like the weather (which could be good or bad for agriculture), or even the antics of a company CEO (which could cause share prices to drop on a whim). And let's not forget global forces, where what's happening in larger world economies can easily impact on smaller emerging markets. And finally there are the more irrational forces like investor sentiment, rumour, fear and greed, all of which can (and do) drive markets for no real reason.

And remember: the best time to invest was yesterday.

Whatever happens, and whichever way the financial winds blow, markets will rise and fall due to a wide – and often entirely unpredictable – set of circumstances. At Prudential, we ignore popular superstition and the ups and downs of markets. Instead, we invest when we know the time is right - when our analysis shows a company or other asset has an attractive valuation, sound fundamentals and the potential to generate above-market returns over the longer term. This is how we generate long-term wealth for our clients.

For you as an investor, the secret is to stay invested consistently for the long term, and not to react emotionally to what you think might be a “good”, “bad” or “unlucky” month. And remember: the best time to invest was yesterday. The second-best time is right now.
Do you want to invest but have questions? Be sure to speak to your financial adviser, or contact our client services team on 0860 105 775 or email us at query@prudential.co.za. We are more than happy to help you.

https://www.prudential.co.za/insights/articlesreleases/what-s-the-best-month-for-investing/