



## **October Tricks or Treats**

What is it about October that brings out the demons? Having worked in a Financial Advisory capacity for parts of the last four decades, I have seen a lot of volatility in the markets. I was not alive during the Panic of 1907 or the Stock Market Crash of 1929, but I have witnessed a few volatile times which, interestingly enough, all stem from the month of October.

Part of October's mystery might have to do with the fact that institutional investors think in terms of calendar year performance. Generally speaking, November and December are some of the best months for investors. Expectations are high. Consumer spending and holiday shopping seem to peak during this holiday season. People are a little more hopeful and optimistic.

If events unexpectedly happen, changing this investment outlook on the economy and the markets, investors may be more inclined (as compared to, say, April or June) to take drastic action.

Indeed, October is not always a negative story. In 2011, the first day of October saw the beginning of a stunning rally after a severe two month correction that carried through the rest of the year. But there have been plenty of memorably ghoulish Octobers. In my working career, I briefly mention two scary time periods:

### **Black Monday 1987**

I recall sitting at my desk on Monday, October 19<sup>th</sup>, 1987 and watching the market meltdown. It was one of the largest single-day losses in U.S. stock market history. The market was down over 20%. That day was filled with fear, wondering what the ensuing days might bring. The volatility of the 1987 crash was driven primarily by technology—the automated trading systems unleashed massive sell orders without human involvement. The automated sell orders took the market by surprise. Since that day, policymakers have launched efforts to install “circuit breakers”—systems placed to shut down the markets if a tsunami of sell orders were to threaten another cataclysmic event like that.

*Interestingly enough, the market gained 100% of this short term loss back in a few short years. It turned out to be one of the great buying opportunities in history.*

### **Credit Crisis of 2008**

We all remember this event. Lehman Brothers actually went bankrupt in September of 2008, but the markets saved their worst mayhem for an October stock market surprise. The intensity of the October stock market debacle was related to worries about AIG, the insurance company whose losses threatened to unravel trillions of dollars worth of credit default swaps and collateralized debt obligations, with every major Wall Street financial house staring into the abyss. U.S. regulators and politicians, led by Treasury Secretary Henry Paulson, swiftly put together an unappealing but I think necessary bailout to save the banking system.

October stock market surprises have come in many different guises. As October 2012 begins there is so much uncertainty out there. No warning bells indicate there is an impending fright in store—the current pulse is generally upbeat. But times are unpredictable and it's always a good idea to stay alert and be prepared,

*After the great recession of 2008 and the stock market decline of some 58%, the market has gained back 90% of its loss. This has also turned out to be a great buying opportunity for the brave in heart. Stock Market stability comes and goes. Recessions come and go. The smart money always buys when others are panicking. That is how fortunes are made.*