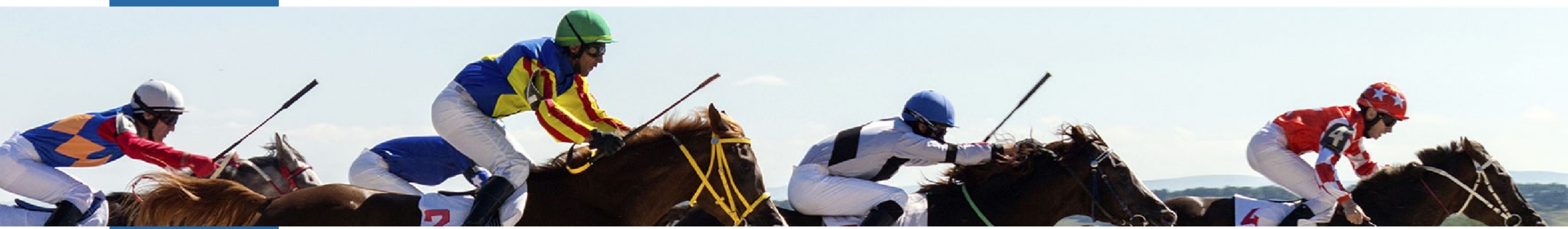
BLUEGRASS
ASSET MANAGEMENT

A Trip Through Septembers Past



Published 8/30/19 - We are entering the month of September, which has earned a bad reputation with investors over the years. Historically, September has been the single worst-performing month for the S&P 500 Index, the Dow Jones Industrial Average, and the Nasdaq Composite (source: Stock Trader's Almanac 2018). The Almanac says, “September is when leaves and stocks tend to fall; on Wall Street, it’s the worst month of all.”

As a result of the poor equity performance, many investors look for opportunities in assets with low correlations to equities in the month of September. One asset in particular that receives a lot of credit for helping investors through this frustrating month is gold, and the numbers below support this statement. Gold has posted a positive return in 21 out of the 32 Septembers since 1987. In other words, September has been a positive month for gold investments about 66% of the time. The average gain for gold during all 32 Septembers measured comes out to 1.83%, with an average of 4.98% during positive Septembers.

In the table below, you will also see the historical September returns for different asset classes as far back as data exists in our system. Not surprisingly, areas like gold, crude oil, and bonds have provided the best returns. In fact, each asset class (with the exception of US large-cap and mid-cap) has a greater historical probability of producing a gain for the month of September than it does at producing a loss. However, up versus down is just half the story -- the degree of those moves is another thing to consider.

Historical September Returns
(through 2018)

	Gold	Crude	Bonds	Real Estate	Int'l Stocks (Developed)	Int'l Stocks (Emerging)	US Stocks (Large Cap)	US Stocks (Mid Cap)	US Stocks Small Cap
Total Septembers	32	23	32	27	39	31	91	38	40
# of Up Septembers	21	12	18	14	22	17	42	19	22
% of Up Septembers	66%	52%	56%	52%	56%	55%	46%	50%	55%
Average Gain	4.98%	10.07%	0.85%	3.57%	3.64%	5.71%	3.19%	3.59%	3.52%
# of Down Septembers	11	11	13	13	17	14	48	19	18
% of Down Septembers	34%	48%	41%	48%	44%	45%	53%	50%	45%
Average Loss	-4.19%	-7.40%	-0.81%	-3.89%	-5.44%	-7.04%	-4.68%	-4.68%	-5.21%
Average % Change	1.83%	1.72%	0.15%	-0.02%	-0.32%	-0.05%	-1.00%	-0.54%	-0.41%

Legend:

Gold - London Gold (UKGOLD)
Crude - NYMEX Crude Oil (CRUDE)
Bonds - Vanguard Total Bond Fund (BND)
Real Estate - iShares DJ US Real Estate (IYR)
Int'l Stocks (Developed) - iShares MSCI EAFE (EFA)
Int'l Stocks (Emerging) - iShares MSCI Emerging Markets (EEM)
US Stocks (Large Cap) - S&P 500 (SPX)
US Stocks (Mid Cap) - S&P 400 (MID)
US Stocks (Small Cap) - Russell 2000 (RUT)

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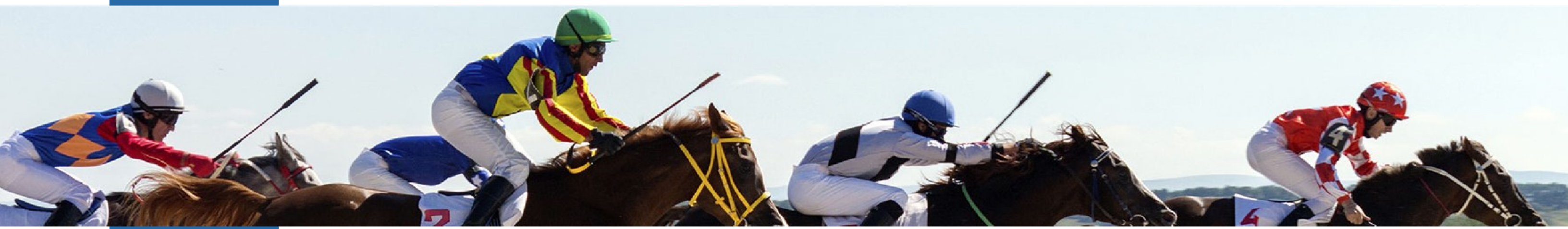


Take a look at the two international equity proxies in the table (the developed and emerging stock indexes). Even though they have historically posted a gain more than 50% of the time, the losing years outweigh the winning years in terms of the magnitude of movement. For example, developed international stocks have seen gains in 56% of the Septembers going back to 1980, producing an average return of 3.8%. However, during the 44% of the years when this index was down during September, the average loss was -5.44%. As a result, the average return for the month of September is in the red at -0.32%. Similar numbers can be seen for US small-cap stocks as well.

Although September is generally recognized as a poor month for equity investors, there have been a few impressive outlying Septembers, such as 2007, 2009, 2010, and 2013, all of which saw gains in excess of 3% for the SPX. Even though September has not generally been kind to the broad equity indexes, there have been opportunities provided by sector rotation. Take 2008 for instance. The SPX as a whole was down -9.20%, however, the Bank Sector Index actually provided a gain in excess of 5%. On the other side of the story, the Steel & Iron sector fell 31.8%, bringing the performance differential for September 2008 to 37.2%, the second-largest dispersion of all Septembers since 1999. On average, this differential is around 23% over the last 20 years. Last year, the Media Index was up 3.4%, while the Semiconductors Index was the worst-performing, finishing down -7.9%. This was the smallest difference between the best and the worst-performing sectors in our lookback period, while the largest spread came in 1999 (40.5%).

Best & Worst Performing DWA Sectors for the Month of September

	1999		2000		2001		2002	
	S&P 500 (SPX)	-2.9%	S&P 500 (SPX)	-5.3%	S&P 500 (SPX)	-8.2%	S&P 500 (SPX)	-11.0%
Best Performing	**Precious Metals**	**29.2%**	**Utilities / Electric**	10.4%	**Precious Metals**	**3.4%**	**Gaming**	7.3%
Worst Performing	Aerospace Airline	-11.3%	Semiconductors	-24.6%	Leisure	-32.6%	Semiconductors	-22.6%
	Difference	**40.5%**	Difference	**35.0%**	Difference	**36.0%**	Difference	**29.9%**

	2003		2004		2005		2006	
	S&P 500 (SPX)	-1.2%	S&P 500 (SPX)	0.9%	S&P 500 (SPX)	0.7%	S&P 500 (SPX)	2.5%
Best Performing	**Finance**	**6.3%**	**Steel & Iron**	**13.2%**	**Precious Metals**	**15.9%**	**Textiles/Apparel**	**8.7%**
Worst Performing	Semiconductors	-7.5%	Food & Beverage	-4.9%	Aerospace Airline	-7.5%	Precious Metals	-12.1%
	Difference	**13.8%**	Difference	**18.1%**	Difference	**23.4%**	Difference	**20.8%**

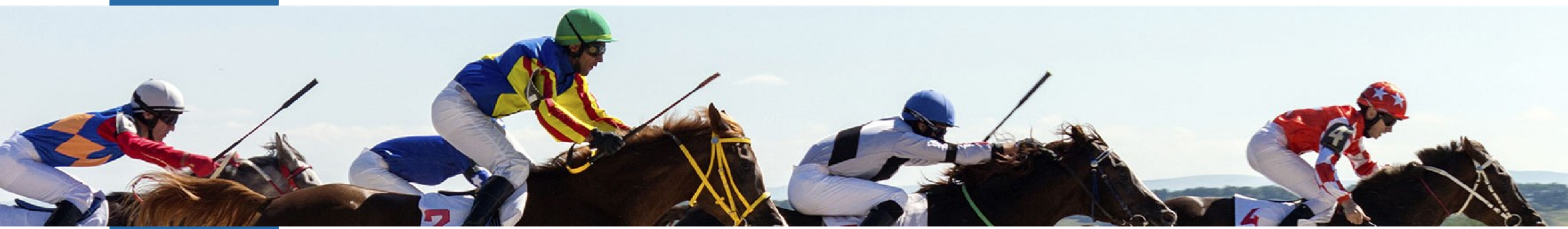
	2007		2008		2009		2010	
	S&P 500 (SPX)	3.6%	S&P 500 (SPX)	-9.2%	S&P 500 (SPX)	3.6%	S&P 500 (SPX)	8.8%
Best Performing	**Precious Metals**	**17.8%**	**Banks**	**5.4%**	**Oil Service**	**13.6%**	**Textiles/Apparel**	**18.6%**
Worst Performing	Building	-8.0%	Steel/Iron	-31.8%	Building	-4.9%	Savings & Loan	0.8%
	Difference	**25.8%**	Difference	**37.2%**	Difference	**18.5%**	Difference	**17.7%**

	2011		2012		2013		2014	
	S&P 500 (SPX)	-7.2%	S&P 500 (SPX)	2.4%	S&P 500 (SPX)	3.0%	S&P 500 (SPX)	-1.6%
Best Performing	**Utilities/Electric**	**-1.7%**	**Precious Metals**	**12.7%**	**Protection & Safety Eq.**	**9.8%**	**Gaming**	4.3%
Worst Performing	Metals Non Ferrous	-22.7%	Semiconductors	-4.6%	Precious Metals	-11.2%	Precious Metals	-22.3%
	Difference	**21.1%**	Difference	**17.2%**	Difference	**21.0%**	Difference	**26.6%**

	2015		2016		2017		2018	
	S&P 500 (SPX)	-2.6%	S&P 500 (SPX)	-0.1%	S&P 500 (SPX)	1.9%	S&P 500 (SPX)	0.4%
Best Performing	**Real Estate**	**1.3%**	**Biomedics**	**10.0%**	**Oil Service**	**13.4%**	**Media**	**3.4%**
Worst Performing	Steel	-18.9%	Restaurant	-4.9%	Precious Metals	-3.6%	Semiconductors	-7.9%
	Difference	**20.2%**	Difference	**15.0%**	Difference	**17.0%**	Difference	**11.3%**

23.3%

The average dispersion between the best and worst performing sector for the month of September
(Data from 1999 - 2018)



In the table above, you can see the best and worst-performing sectors during the month of September for each year going back to 1999. Despite being the worst-performing group in three recent Septembers (2013, 2014, and 2017), the precious metals index has been the best performing group in five out of the 20 years, more than any other group. Meanwhile, in addition to 2018, Semiconductors has been the worst-performing sector in four other Septembers, making it the most frequent bottom performer.

The bottom line is that we have no way of knowing whether this September is going to produce gains or losses. However, based on the indicators - the Bullish Percent for the NYSE and the Bullish Percent for the S&P 500 each sit in a bear confirmed status; while the SPDR Gold Trust has continued to climb after returning to positive trend in June and the iShares US Core Bond ETF has given six consecutive buy signals - this may be a September in keeping with years past when gold and bonds offer stronger returns than equities.

Please contact us to learn more about rules-based disciplined investing and how it can help your clients. The Bluegrass Asset Management team can be reached at 502-429-0196, ask for John Casconi, Rodger McAlister or Jennifer Grilliot.