

The Fourth Awakens

Canadian markets are flat year-to-date mostly due to financials and energy. While these two sectors comprise a large portion of our index, they have not been performing this year. However, we believe financials and energy are at an inflection point. Short term interest rates are on the rise which will benefit financials and crude prices have finally retraced back to US\$50/bbl. Given this setup, the fourth quarter, which is the most seasonally favorable quarter, appears to be setting up for a solid year-end rally. Over the past 25 years, the S&P/TSX Composite Index (S&P/TSX) has averaged a negative return of 0.8% in Q1 with a 56% frequency of positive return, +0.6% in Q2 along with 49% positive frequency, -0.2% during Q3 with a 55% positive frequency and finally +1.1% in Q4 with a 59% positive frequency.

Do Seasonal Investors Always Succeed?

Financial asset prices have a statistical tendency to rise and fall during certain periods of the year, causing opportunities to arise from a seasonality perspective. Seasonal investing, just like any other investment system, will not always work, but it can be used in conjunction with other investment strategies to improve the probability of picking a winning investment. A solid way to gauge whether a seasonal effect may take place is to observe the probability of success. In other words, what is the frequency of positive returns during a specific period? In fact, probability of success plays a big role in seasonal investing. This helps investors detach themselves emotionally from an investment and accept losses; cut losers and keep your winners. Below we breakdown average sector returns for the S&P/TSX along with the frequency of positive returns over the past 25 years.

Seasonally Favourable: 25Y Average Monthly Returns (%), Frequency of Positive Returns (%), Sorted by Q4 Perf.

	January	February	March	Q1 Avg.	April	May	June	Q2 Avg.	July	August	Sept.	Q3 Avg.	October	November	December	Q4 Avg.
S&P/TSX INFO TECH INDEX	6.3, 64	-1.8, 68	-0.2, 56	1.4, 63	0.8, 64	1.2, 56	-3.6, 44	-0.5, 55	0.8, 60	0.9, 64	-3.6, 52	-0.6, 59	3.5, 68	4.6, 60	1.4, 80	3.2, 69
S&P/TSX TELECOM SERV IDX	1.5, 48	-0.1, 60	0.4, 60	0.6, 56	1.3, 76	1.5, 60	-1.3, 44	0.5, 60	0.8, 52	0.4, 56	-0.5, 52	0.3, 53	3.4, 60	0.4, 52	2.3, 76	2, 63
S&P/TSX INDUSTRIALS IDX	1, 48	1.3, 64	1, 52	1.1, 55	2.5, 64	1.3, 68	-0.5, 56	1.1, 63	1, 60	-1, 60	-2.2, 52	-0.7, 57	2.5, 64	0.9, 48	1.9, 76	1.7, 63
S&P/TSX FINANCIALS INDEX	-0.7, 44	1.5, 64	1.5, 72	0.7, 60	1.7, 72	1.1, 60	-1, 40	0.6, 57	1.4, 48	-0.4, 52	0.3, 60	0.4, 53	2.1, 60	1.5, 44	1.4, 60	1.7, 55
S&P/TSX CONS STAPLES IDX	0.1, 44	1.3, 68	0.6, 64	0.7, 59	1.1, 68	1.7, 72	0.2, 48	1, 63	1.2, 68	0.3, 64	0.8, 52	0.7, 61	1.1, 84	0.8, 68	2.6, 80	1.5, 77
S&P/TSX COMPOSITE INDEX	0.8, 64	0.8, 60	1, 44	0.8, 56	1.3, 52	1.2, 60	-0.7, 36	0.6, 49	0.6, 56	0, 60	-1.2, 48	-0.2, 55	0.8, 44	0.7, 64	1.8, 68	1.1, 59
S&P/TSX CONS DISCRET IDX	0.6, 52	0.9, 60	1.6, 56	1, 56	1.3, 72	1.2, 68	-0.4, 48	0.7, 63	0.3, 60	-0.2, 48	-1.5, 48	-0.5, 52	1.3, 60	0, 56	1.9, 56	1.1, 57
S&P/TSX UTILITIES INDEX	-0.2, 68	-0.2, 60	0.4, 56	0, 61	0.8, 44	1.6, 60	-0.6, 28	0.6, 44	1.2, 56	0.2, 60	0.2, 44	0.6, 53	1.5, 72	0, 60	1.5, 56	1, 63
S&P/TSX MATERIALS INDEX	1.5, 48	2, 52	-0.3, 48	1.1, 49	0.9, 48	1.3, 60	-1.2, 36	0.3, 48	-0.4, 56	1.3, 64	-0.8, 48	0.1, 56	-0.9, 44	1.3, 60	2.4, 64	0.9, 56
S&P/TSX HEALTH CARE IDX	4.5, 56	1.2, 68	-3.4, 48	0.8, 57	0.3, 64	1.9, 60	-0.4, 32	0.6, 52	-0.5, 64	0.6, 48	-0.1, 60	0, 57	-2.7, 52	1.7, 48	2.1, 68	0.4, 56
S&P/TSX Real Estate	-0.2, 68	1.7, 48	0.3, 60	0.6, 59	1.6, 52	0.9, 68	-0.9, 40	0.5, 53	1.4, 64	-0.5, 56	1.4, 56	0.7, 59	-0.9, 72	-0.5, 56	2.1, 64	0.2, 64
S&P/TSX ENERGY INDEX	-0.4, 48	1.5, 44	3.4, 52	1.5, 48	3.5, 64	1.5, 76	-0.4, 40	1.5, 60	-0.4, 60	0.2, 52	0.2, 64	0, 59	-0.1, 64	-2, 44	2.2, 72	0, 60

Source: Bloomberg, Raymond James Ltd.

Stock-specific Ideas

Seasonal plays can also be found on a stock-specific level. Below we show a table of the top 10 best performing stocks on the S&P/TSX Composite Index by month along with the frequency of positive returns. We only use stocks that have at least a 10-year track record of monthly price data.

Top 10 S&P/TSX Stocks Per Month: 10-Year Average Monthly Returns (%), Frequency of Positive Returns (%)

January	February	March	April	May	June	July	August	September	October	November	December
NG: 26, 70	PLI: 18.4, 80	LUN: 14.7, 40	TCW: 13.9, 60	ITP: 17.5, 60	KDX: 9.7, 80	CIGI: 9.5, 80	GUY: 13.3, 80	AC: 10.6, 80	AC: 14, 70	CG: 16.9, 50	NG: 13.7, 60
OGC: 22.3, 70	FM: 18, 80	BCB: 12.4, 90	TECK/B: 13.3, 70	BCB: 16.8, 50	HCG: 7, 50	TECK/B: 8.4, 60	GC: 10.4, 70	PLI: 9.7, 60	PLI: 10.1, 50	PLI: 13.2, 70	IFP: 11.6, 90
SMF: 14.7, 70	POU: 11.2, 90	IFP: 11.2, 70	FM: 11.2, 70	LNR: 16.2, 90	TCW: 6.3, 60	FM: 7.7, 80	IMG: 9.2, 90	DSG: 8.4, 100	FM: 8.6, 80	BAD: 10.1, 100	OSB: 9.9, 90
DGC: 14.5, 60	CMG: 10.7, 90	BTE: 10.1, 60	OSB: 10.4, 40	AC: 8.6, 60	BYD-U: 5.4, 60	CG: 7.5, 60	ASR: 8.6, 60	FFH: 6.6, 70	KDX: 8.1, 60	ITP: 8.5, 70	CG: 9.9, 50
TCW: 11.9, 40	DGC: 10.6, 60	DDC: 9.4, 70	CR: 9.4, 60	CMG: 6.9, 70	IMG: 5, 60	TFII: 7.2, 80	NGD: 8.6, 70	DHX/B: 5.6, 50	TCL/A: 6.8, 80	BYD-U: 6.5, 80	ASR: 9.8, 70
GUY: 11.4, 80	TRQ: 10.6, 70	AC: 7.7, 60	NVA: 9.1, 70	NVA: 6.4, 70	GUY: 4, 60	LUN: 6.7, 60	AEM: 8.5, 80	CG: 4.8, 60	DHX/B: 6.5, 70	WSP: 6.4, 80	JE: 9.7, 90
EDV: 10.9, 70	OGC: 10.1, 60	TECK/B: 7.3, 50	CLS: 8.7, 70	GIL: 5.7, 90	CEU: 3.5, 60	LIF: 5.5, 60	DGC: 7.3, 80	SMF: 4.1, 60	CHE-U: 5.6, 70	RBA: 6.4, 90	ENGH: 9.6, 80
ABX: 9.7, 70	MX: 9.5, 90	MRE: 7.2, 80	BBD/B: 8.5, 60	DDC: 5.7, 50	CWB: 3.5, 60	WEF: 5.4, 70	ARE: 7.2, 90	ITP: 4.1, 50	SW: 5, 80	OTEX: 5.9, 70	DGC: 9.5, 70
VRX: 9.5, 80	WPM: 8.9, 70	GRT-U: 7, 60	PD: 8.1, 60	BYD-U: 5.6, 90	ATA: 2.9, 60	ATD/B: 5, 80	WPM: 7, 60	EDV: 3.2, 60	ENB: 4.9, 90	K: 5.8, 50	GUY: 9.2, 70
AEM: 9, 70	ASR: 8.4, 70	AAV: 6.9, 80	CEU: 7.6, 70	MRE: 5.6, 60	SSRM: 2.9, 50	TRQ: 4.9, 70	CG: 6.7, 70	AIF: 2.8, 60	ATD/B: 4.9, 90	PAAS: 5.5, 70	WPM: 8.3, 50

Source: Bloomberg, Raymond James Ltd.

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