How Understanding Seasonal Investing Can Dramatically Boost Your Returns

Description

Successful investing is ultimately about probabilities, and there are numerous strategies that have track records of generating outperforming returns on average; for example, Ned Davis Research found that over the past 40 years, dividend-growth stocks outperformed dividend-maintaining stocks and non-dividend payers.

Other strategies, like purchasing stocks with low price-to-earnings growth ratios (essentially value investments with high growth rates relative to their P/E ratio), and purchasing low-volatility names have also shown a track record of outperformance.

Seasonal investing is no different, and whatever investment strategy you use, understanding recurring seasonal patterns can help you time when to enter certain names, providing the other criteria of your strategy are also met. While seasonality applies extremely well to certain commodities (and therefore commodity stocks), it even applies to markets as a whole.

A 2011 study published in the *Investment Review* found that over a five-decade period, the TSX itself demonstrates fairly reliable seasonal trends. For example, January, November, and December showed positive returns of 62%, 68%, and 88% of the time, respectively. These are above or equal to the average for all months of 62%.

September, on the other hand, shows negative returns half the time compared to 38% for all months. While this data is useful for the overall market, certain commodity markets show sometimes more predictable trends, and these can be used to time the purchase of key names and ensure seasonality is a tailwind, not a headwind.

Gold

The gold market shows fairly regular seasonality. Starting on a general level, gold shows a pattern of weakness beginning in March and continuing to the end of July. August through to February, on the other hand, is a period of seasonal strength.

Looking at the odds of a positive return by month, investors can choose the best time of year to add to positions (this effect works especially well when other aspects of gold fundamentals, as well as the fundamentals for the company itself, are positive).

August and September are some of the strongest months of the year for gold over the long term; gold stocks have showed positive returns 75% of the time in August and 50% of the time in September, according to **TD Bank**. Average returns were 4% and 5.5%, respectively, for both months, well above the under 2% typical for most months.

What does this mean for investors? While July would be the best month to buy (it is the poorest-performing month of the year), investors can get another chance to get in at the end of October, when gold stocks are typically down 4%. Returns are solid from October through to the end of February.

This effect is largely explained by the fact that demand from India, the world's largest gold consumer, spikes during the fall. This is explained by the two main factors: Indian wedding season starts in October, and harvest ends. The end of harvest means greater farmer incomes, and farmers often store their income in gold.

Investors looking to capitalize on this should consider buying **Barrick Gold Corp**. (TSX:ABX)(NYSE:ABX) on weakness over the next month. Barrick offers low risk through its improving balance sheet, while also offering good leverage to rising gold prices via a good production pipeline and renewed focus on both margins and developing high-grade deposits.

Oil

Oil follows a fairly predictable season pattern as well. The period of seasonal strength over the past 20 years typically runs from mid-January to mid-July. The fall is overwhelmingly a period of weakness, and this is due the seasonal maintenance of refineries, which in turn causes a decline in crude demand and higher crude inventory builds.

Planned outages are expected to peak in mid-October this year before production returns in December. With September being historically the worst month of the year, now may be the best time to accumulate oil stocks.

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has responded strongly to the recent weakness in oil prices, falling over 20% from mid-August. Shares are now recovering, and this would be a wise time to enter.

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