IFB304: Navigating the September Effect and Other Noise in Stocks

[This transcript was generated by artificial intelligence. Timestamps are not 100% accurate depending on the platform used for listening].

Dave

0:00

All right, folks, welcome to Investing for Beginners podcast today we have episode 304. Today, Andrew and I thought we would talk about the September effect and other useless information you might encounter in the stock market. And so with that, we will go ahead and dive in and talk about what the heck is the September effect, Andrew?

Andrew

0:20

September effect, this idea that historically September has been one of the worst months in the stock market. You go back decades and decades and decades, and you take the different months, average them out, what's the returns, September tends to be the worst. So I guess that naturally lends the question, do you sell your stocks in September? Do you not buy stocks in September? So how does somebody answer that?

Dave

0:43

So how does somebody answer that? Well, I think like everything, it depends, No, I'm joking. I think what you're going to find is this is the short term effect. And if you are investing, I believe the right way, then this is something you would ignore. I mean, who cares? I'm not going to not buy or sell simply because September is the worst month for stocks. If I'm buying constellation software, or Berkshire Hathaway, my goal is to try to hold it for as long as I possibly can, because that's how I compound my wealth the best.

And by ignoring short term noise, like a September effect, that's the best way to get there. If you're buying and selling and trading stocks, then you know, maybe okay, I might consider that's not the game I'm playing. So I would avoid it. I don't care. It's something. Another thing to check off the list like, Okay, that's interesting and move on to something real.

Andrew

1:33

That's very well said, think about like, yeah, all right, maybe this September, the market does go down. And maybe you're regretting that a little bit. But look at other months or other years, when the stock market did really, really well. Where are you really going to sell in 2019 2018 2017? You are the soul? And you want to miss out on gains? Most likely? Because I was I was a bull market? Why would you cut off yourself and reduce your gains? Because you're trying to play some effect that sometimes yes, maybe a majority of times, it does work that way. But sometimes it won't. So whether you can do that, and you just gotta jump in and out all the time. I don't think it makes sense at

Dave

2:12

all. Let's say you do six months of hard research to find the greatest company that you can invest in, let's say it's Google, make it easy. Do all this work, you figure out that I really want to own Google, and you buy it in July, when September comes, you sell it on September 1, and then you buy it back on October 1. I mean, is that? Is that what you're supposed to do? Because it's the worst month of the year. And you do that every single year. That doesn't logically make sense. And I always go back to what Warren or Charlie Munger said one of the rules he always lived by is never interrupt compounding unnecessarily. And if you've done all this work, and you've really realized that Google is the thing that you really need to own, then why would you interrupt it just because it's supposed to be the worst month ever, your returns are not going to be based on one month, if you hold it for nine years is a noise that is not going to make an impact in the long

Andrew

3:05

run. And just because the stock market, on average does something doesn't mean Google will do that same thing. So what if the stock market falls in September, but Google goes up because it's a great business. So now you've done the hard work of picking a great business, but you're not going to participate? Or you're gonna lose out on September gains, right? Because you're trying to play some other game, right?

Dave

3:26

I mean, it's when I was in the restaurant business, September was usually the worst month of the year, probably for a myriad of reasons. People go back to school, you know, the summer vacation is over, everybody has to get back into the routine, it could be a myriad of things. But we didn't shut our doors for September. And we didn't stop operating just because it was historically the worst month of the year, we just figured out how do we make the best of the situation and anticipate the great months that October was going to be? And that's just the way you operated the business. And if it was that bad, you would think they would shut down the stock market for a month. But they don't do that. So I guess that's why I kind of considered a lot of noise and they don't pay much attention to it, for sure.

Andrew

4:05

So what would be another thing that's a lot of noise that maybe people should just also ignore?

Dave

4:11

Well, this was kind of like a month theme here would be the Santa Claus Rally. I'm sure there are times where it does really, really well for a week or two. And everybody gets super excited because it's Christmas. And you know, Amazon and Walmart are killing it within selling all their retail for their Friday set Black Friday sales or their Black Friday, weeks or months or however it's evolved to now. And it's just a lot of noise and I don't pay much attention to it. It's a nice term to use for the social media and for the media to you know, talk about something that in the long run, owning a company is going to be the best interest for you. I guarantee you that Warren Buffett and Charlie Munger give two hoots about the member or the you know the Santa Claus Rally when they're thinking about whether they should buy or sell something it does not enter the equation

Andrew

4:59

how Much of that time that an investor would spend trying to figure out those different historical correlations could be spent actually finding something that compounds their wealth,

Dave

5:09

right? Yeah, oh, there's another one selling may go away. And supposedly, January is the worst month of the year. I remember seeing a few years ago, a chart, you know, talking about all the different months in this month was bad, and this month was good, you know, and all this kind of stuff. And I think they actually mapped out if you invested $1,000, in each particular month, at the end of 10 years, you would still have the same return, whether you invested in that month or not. And so it's more about holding the company for a longer period of time than it was whether you were in and out, you know, during that period, it's more about the business, you're buying where they are in the business cycle, you know what they're doing, as opposed to whether you bought it on December 22? Or whether you bought it on March 17? That doesn't matter,

Andrew

5:53

you feel like it's like, like a mindset shift that needs to happen with investors are kind of looking at these weekly returns and thinking that that determines their success.

Dave

6:02

Yeah, I definitely think that's the case. Because when you're investing like we believe is the best way to do it. And is to kind of ignore that stuff. You want to be aware of it. But you don't want to spend your days thinking extensively about it, you want to think more about the business and what the business is doing. As opposed to all the whirlwind or tornado of news that's going around about this data. The other thing, you know, most of it is nothing burger, and you just don't want to get too excited about it. And that's one of my favorite phrases. By the way. I love that

Andrew

6:31

say the nothing burger doesn't sound like one that I would like. And you know, I'm down for all sorts of burgers. So yeah. Burger, I'll be pissed.

Dave

6:43

You wouldn't like it. I mean, I think, you know, kind of ignoring the month supposedly impacts of VR investing. I think that kind of ties in with kind of the news media? And why you want to kind of avoid that. What are your thoughts on that?

Andrew

6:56

Oh, for sure. I mean, something that you've said a lot lately that's stuck in my head is if it bleeds, it leads. So by definition, not everything that bleeds is important information. And the things that the different news places might say is driving the markets might not even be accurate. I think about like the markets are, however many millions of people with however many trillions, billions of dollars that are all moving around with however many, many people are having a good day or a bad day, or working hard or not working at all, in any given moment, day or time. How many of these events are really actually doing something other than making noise? It's very few things that happened on the news that actually move the needle, where a lot of this other stuff is just you know what, some days the market goes up?

And guess what, some other days the market goes down. Right? And that might not be related to anything really might not. Maybe some wealthy dude just passed away, and his inheritance got passed down. And the kids happened to be really heavy in these three stocks, and they want to cash it out. Well, I mean, how many people are out there? And what are the odds a bunch of those happen at the same time? I don't know. It could be anything. So yeah, thinking that a we're going to look at different random news events and say that this is what's impacting my portfolio or not dimensionally trying to predict how I'm going to jump in or out in any given day based on what I think's gonna happen tomorrow.

Dave

8:22

Right? Yeah. Well, I mean, think about we had Karen fireman on and she's has had, you know, a good, you know, colorful history and in the stock market. And even she was saying that there are so much short term noise in Wall Street, and the media helps fuel that. And we have to remember, that's their job is to attract eyeballs. And that phrase that you refer to you to bleeds that lead is something I heard a long, long time ago. And if you think about it, if you look at the newspaper, if you look at something on, if anybody actually reads the newspaper, if you look on the internet, if you look at a website, a news website, especially a financial one, you're going to see the most sensational possible headline to attract you to want to read that.

And how many of us raise our hand have been sucked in by that? And you just you want to read about what happened with this and why you think, okay, you know, the back of your head, hey, this could be a big deal. And I'm gonna throw out three examples of news that got really blown out of proportion, that ended up being nothing burgers. And the first one is when Amazon bought Whole Foods a few years ago, I remember when that happened, because that was death of doom and despair for all grocery stores in the market. And CNBC in particular, which is pounding the table about how this was going to end Kroger and Walmart, and target for the groceries and just any other grocery store, all the all those they were done, you know, because now that Amazon was moving into grocery, it was over for all of them, and they might as well pack up their bags and go home because it was over.

And you know, four or five years later that has not come to pass. And it has not been great for Amazon in that respect. And it has done nothing to impact Kroger and has done nothing to impact Walmart as far as groceries go. And in fact, if anything, they've gotten stronger and better. And so it was a whole nothing burger. But if you turned on the news for a couple of weeks, that's all you heard about was Amazon was coming for grocery and it was over for all those companies. And so that turned out to be nothing burger. And my second one is more recently, Netflix reported its first quarterly drop in subscriber, and that supposedly was the end, you know, that dropped 27% in value in a day. And it was supposedly the end of Netflix. It will they are over Disney had come and they had won. And you know, six months later, Netflix is at all time highs.

They've grown subscriber counts over the next two quarters, and are booming. And now Disney is not doing so great. So again, a big nothing burger as far as Netflix go. And then the last one is this whole AI humming you know, Bing coming for Google and Google search was over, they were done. They might as well call it quits because you know, Bing had rolled out their AI and it was so superior to anything that Google has ever done. And there was no chance that Google will compete. And what happened three months later, oh look like that Bing actually lost a share of people using Google Search versus Microsoft's Bing. And so it's still early innings in that, but it's obviously not going to come to pass.

But if you looked at the news, any sort of news outlet all about Microsoft is coming for Bing air for Google and Google have done, you know, the sentiment around Google had turned negative because of this and everybody was down on them. Same move with metta. You know, everybody was down on them. So these are all examples of things that can be very much nothing burgers. And you just have to realize, if you are watching the news, reading the news, that if it bleeds, it leads, and their job is to get eyeballs and as to attract people to stay on their platforms and get emotionally involved and make decisions. And that's their job. You know, I'm not saying it's right or wrong. It's just it's your job. And you have to understand that that's what they're doing. And that's why I feel like those situations were nothing burgers. I love that word.

Andrew

12:15

I think at a certain point, I'm gonna have to just hit pause and go through a drive thru, you keep telling me about burgers, plus the dinner time. What about politics? What about? I mean, we're gonna see this next year, yeah, we're going to have an election that call news, things that politicians are doing things Congress is passing or not passing? How can an investor stay informed with the businesses they want to own? And the politics that goes along with some of these things that may or may not affect businesses?

Dave

12:47

Yeah, I think first of all, you have to understand that politics is always personal. And again, the news and the news cycles are going to hype it up beyond all belief. And this upcoming election, depending on who's irregardless of what side you're on, or regardless of what side you're on, it's going to be contentious. And it's going to be bloody, and there's going to be lots and lots of new ways about this standard of the other thing. And again, it all comes back to what company do you own? What are they doing? And how is how are they performing? And how are they going to continue to be impacted by what they're doing. As far as their industry, their sector, the economy, they're working in, who's elected President, by and large is not going to have a huge impact on the returns of Microsoft, it may in the long term, if they enact, you know, tax laws or other things that could impact the business.

But those are generally going to be several years down the road, it's not going to happen the day after somebody is elected, whoever wins. And so it's a lot of noise. And it's going to be a very loud election for sure. And so it's just something to avoid if you have to watch the news. Or if you have to read about the news, you try to find as I guess neutral, subdued news outlets as you possibly can, and avoid some of the bigger names because again, if it bleeds, it leads. And so I'm not going to pick a political side, but you will see on all aisles that you will see if it bleeds it leads, but I found that, you know, if I had to throw a news source out there, the Wall Street Journal tends to be more neutral than others. And so I would try to stick to something like that to avoid any of the sensationalism that could possibly come about because there will be some sensationalism going on easier for me to say,

Andrew

14:40

I'll give you my own nothing burger story then. Okay. I remember when Biden was getting elected and 2020. Everybody, for a very brief period of time everybody was talking about corporate taxes and how that was going to change. And you know me I love digging into the numbers. I love seeing how percentages here can change numbers over they're projecting that out over 10 years, and I spent probably a little bit more time on it than I should have. But I came to this realization, at a certain point, it was like, if you're a company and your corporation, you're gonna deal with higher taxes, you're gonna deal with higher taxes. So the question is, do I want to be in stocks or not, don't want to be a business owner or not? Like, there's gonna be some differences depending on if you're International, or you sell domestically. But by and large, the impact is going to be pretty broad. So what am I wasting time on trying to pick percentages here and there from a holding company for five or 10 years?

But is that really going to move the needle and if it impacts companies will impact companies, but you're still trying to find a company that invest in so it was just kind of eye opening for me to be like, Wow, you can really lose yourself in a pointless mental exercise that feels like you're doing something that's useful for your investment results. But it's really not. It's, it's really useless. It's really noise. And at that time, I should focus on something more productive.

Dave

15:59

Yeah, exactly. And when I was talking to John, or tante, he mentioned that too, when you're thinking about taxes and how it impacts when you're valuing a company. He said, Pick a rate and go with it. He said, Don't try to be hero and try to get it down to the nitty gritty of this particular number. And that really kind of resonated with me. And if you kind of think more broadly about the whole tax situation, companies have had to pay tax for hundreds of years. And so it's not like if one president versus the other changes the tax code, that it could be earth shattering in you know, every business is going to go out of business, like you said, they're going to adjust they've had to pay him before they're going to keep paying them because they have to, and they're just going to adjust to whatever rules and laws are out there and move on with their business. So you know, it could be a big nothing burger for sure. For sure.

Andrew

16:46

What's next?

Dave

16:46

A next would be clickbait kind of goes along with the news. Yeah,

Andrew

16:51

stay away from it. Yeah. What about the Fed? Yeah, the

Dave

16:54

Fed, that's always a fun one, the Fed is going to impact your valuations and whatnot. And it's going to impact the economy over a long period of time, generally, when the Fed recently have has had to raise rates because of inflation, getting out of control, and trying to keep the economy cool enough that we can continue to thrive and keep him employment. So keep people in jobs, that's their mandate is to keep inflation down and keep people working. If they can do those two things, then the economy will thrive over the long period of time. And that's their job. So when they're raising rates, understand that sometimes that's just part of what they have to do.

But also understand that the impact that we will feel from the rates generally takes time to filter in to the economy for that to take effect. And I heard somebody talking on a podcast today that it can take up to six months, almost a year and a half or longer before we start to really feel the impact. So that being said, a year and a half to two years before it impacts the economy, which means it would impact visa, for example, and so just understand that it could have an impact over a period of time. But the instantaneous gratification that you see sometimes, you know, the market react to it's always interesting the market it when they raise the rates, then the market drops for a day or two, and then it goes back to like nothing to see here and moves on.

And it's you know, you find two weeks later or a month later, it's higher than it was before they announced it. And it's because people understand that the economy will keep growing, and the businesses will keep making money. And so to me, it becomes a big, Much Ado About Nothing. And I think trying to predict it, forget about it, you have no idea what a person is going to do. And, you know, if you do, then your crystal ball is way better than mine, mine's kind of dusty and cracked. And so it doesn't work that great. So I tend to stay away from the predictions. And I tend to stay away from the people that do the predicting, because you know, 99.8% of the time, they're wrong. And it doesn't really impact whether I'm going to invest or not.

Andrew

18:54

If I could leave investors with an idea that I would boil down to two words, it would be priced in. And so there are impacts to what the Fed does to the economy, obviously, it can move the market out of all the factors are probably the biggest that can move markets and change the economy. And by the Fed. I mean, the Federal Reserve System of banks, right. But the thing about it is, is like everybody's already trying to play that game, everybody's trying to guess there's too many people that are very smart with a lot of money that are already playing that game. And so even if your crystal ball looks a lot better than minor days, whatever you're predicting, if it's obvious, it's probably already priced in and if it's priced in it means if what happens was expected to happen, then nothing's gonna happen. The stocks aren't gonna go up or down. If it's priced in and expectations happen then everything's neutral. So when you're trying to forecast or use your advanced crystal ball to make a move in the market short term, you're basically not only needing to be right on your Objection, but also right on is this being priced too much or too little?

And good luck with that as well, because that's its own game. So we talked about a lot, don't try to time the market. This is one of the big reasons why, because things are priced in a lot of the times, and a game that you're more likely to win is, can I find good businesses with competitive advantages that I can make my own competitive advantage by holding them for a very long time. That's the only competitive advantage we can have, as investors continue to hold on for the long time. play that game versus trying to play the this pricing game where I'm gonna know exactly what the Feds doing in their next meeting, and I'm gonna react, it's not something that the vast majority people can do?

Dave

20:44

No, it's not. And I think one of the things that I kind of go back to too is, if you look at some of the long term experienced investors, and their reactions to some of these things that we're talking about, they don't have reaction. So you don't see Charlie Munger or Warren Buffett going out and making investments based on the September effect, or the Santa Claus Rally, or the Fed raising or lowering rates, they're going out and trying to find the best companies, they can find that, like Andrew said, have competitive advantages and have a long runway to be a great business, the short term noise of whether the Fed is going to or not raise the rates and by how much is all going to play out in a wash over a long period of time.

And that's the advantage that we can have as investors is by trying to play that long term game, because then all these things we're talking about, it kind of wipes them all out, they become irrelevant or very much not relevant. And that's the thing you can take away from some of these experienced investors that have been in the market for a very, very long time. Ray Dalio a perfect example. He's not making major moves based on what the stock market or what the Fed is going to do or not do in the long run, it's not going to make a difference. All right, what's next?

Andrew

21:58

Oh, I guess probably my last one would be since you're on the topic of celebrities, I would generally ignore what celebrity investors are doing. And what I mean by that is just like a week or two weeks ago, I saw a news article that said that Bill Ackman was gonna bet against treasuries, he's betting against US debt. And then very shortly after Warren Buffett was telling people, he's gonna buy US Treasuries. So we have two wildly successful, probably some of the smartest investors we've ever seen, both on opposite sides of the trade, and both probably with different time horizons. So if you're just taking this piece of information, and Bill Ackman did this, or Warren Buffett did that, without any context on exactly why they're doing it, what their time horizon is, all these other factors, it's not going to be useful signal for you.

And you should be careful about feeling a certain way about it to rub my nose and one of my painful mistakes, because I remember I bought Domino's Pizza. And then maybe like a week or two later, I remember bragging about it to my brothers, because like all look Bill Ackman, follow me in the Domino's. But you know, he figured out sooner than I did, this thing was a nothing burger, and he got out. And it took me probably another six months until I figured it out to six months to a year. And then I got out. So that idea that like, I got really excited that Bill Ackman had happened to buy the same stock I did shortly after I did was really just not any good, useful signal whatsoever.

So it's natural to want to like in my case, I want to feel affirmation that I knew a smart guy was doing the same thing I was doing, when you're looking at what investors are doing. You might think, oh, I want to do what they're doing. Because they're smart, they know what they're doing. But just remember that it shouldn't be the sole reason for following an investor into the trade. You got to be really careful with that. And so that's why I say, you know, if I found out that Bill Ackman was shorting treasuries, how I felt about treasuries for long term didn't change, and I hope other investors can feel the same way about other investors and other positions they take.

Dave

24:10

That's very well said. And I think you should think very carefully about following celebrity investors. You know, Andrew and I are obviously huge fans of Warren Buffett and Charlie Munger. But I have never an Andrew has not either have never bought a company just because Warren did. And he would tell you the exact same thing. It's one thing to use celebrity investors as a, an idea base or a place to go to find ideas. But you need to do your own research, you need to come to your own conviction. You know, bar conviction is a very, very hard thing, especially when you're buying stocks and the market is going up and down. And it's really hard to have conviction when you don't understand what the business even does.

And so sometimes, yes, it can be nice when you buy a company and then you find out later that somebody you admire also owns it. It can be a little bit of a confirmation bias, and it can give you a bit of an ego boost.

But if you bought it because they bought it, and then that's a much harder place to be. And I would encourage you to avoid that. And here's another thing to think about with that. Most of the time when we find out that so and so is owning a company unless they say it directly in a news article, or they say it in an interview or something. Most of the time we find out from their financial filings, which is called a 13. F, which is 90 days after they could have bought it. And so it could have been a vastly different price a vastly different plays in the stock market, you have no idea when they bought it, how much they bought, you know, all those things have an impact on their decision to buy a company. I remember a few years ago, it was revealed that Berkshire Hathaway owned snowflake, which is one of the cloud companies, and everybody was like, Oh my gosh, oh my gosh, was probably wasn't Warren bought it.

But irregardless, that a lot of people that were investing in snowflake started using that as a reason why, you know, it's a great company. And it could be I'm not saying it is or isn't. But my point with all that is you need to do your own work. You need to do your own due diligence, you need to go find out what the company is all about before you follow Bill Ackman into a trade or you follow Warren Buffett or Mohnish pry or anybody else because you just power conviction is really hard to maintain when things go south. Yeah, for sure. All right, everyone. Well with that, we will go ahead and wrap up our show of the September effect and other useless information you can ignore. So I hope you enjoyed it. Don't forget to subscribe to our show on your preferred podcast app. If you enjoyed our little show.

A five star review will go a long ways towards helping a show and helping more people discover our show so that we can help more people learn about the stock market. And don't forget to browse the incredible materials we've created for you e investing for beginners.com to learn more about the stock market. And last week, continue growing your knowledge as an investing for beginners insider with insights and educational tips delivered right to your inbox for free sign up today. And with that, we'll go ahead and sign us off you guys go out there and invest with a margin of safety, emphasis on the safety. Have a great week and we'll talk to you all next week.