



How does the S&P 500 perform after it rallies more than 10% in four days?

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The S&P 500 Index closed at 676.53 on Monday, March 9, and with hindsight it appears that was a great buying opportunity. The market rallied 11.8% over the following four days and, as of the end of trading March 18, had risen 17.4% from the low. This market action has caused us to look at other circumstances when the market rallied 10%+ over a four-day period to see what typically follows for the stock market.

A 10%+ rally in four straight days has only happened nine other times since World War II, including two such circumstances in 2008. In all nine past instances except one, the market conceded some of those gains and provided a second and sometimes a third buying opportunity. On average however, the market falls 10% from the four-day rally level sometime within four months and in most cases that represented a truly great buying opportunity for stocks.

October 1982 was the one instance where the market basically continued straight up following the four-day rally. There are some notable differences between that situation and the rest. The 10% rally in 1982 didn't occur from a bottom in the market like the other eight times, it happened after the market had already rallied 20% from the bottom. Excluding the 1982 rally, in all eight instances the market fell back at least 6.8% from the 4-day rally level within a four-month time span. The charts below show the history of the S&P 500 during the rally periods, with the four-day 10%+ highlighted in red.

What is most apparent is that market rallies such as we had last week tend to occur near major market bottoms. The moves do not always mark the absolute bottom but often occur around a double or even triple bottom. Given that this is the third such move in the bottoming phase that we appear to be going through, this may indicate that March 9th was the ultimate low. Alternatively, we may retest, but even if we do, it appears to us the market action of last week suggests this is an attractive time to buy stocks. If the market retests its March lows over the next few months it will likely represent a great buying opportunity.

S&P 500 2008-2009



Source: Bloomberg

S&P 500 2000-2002



Source: Bloomberg

S&P 500 1987

Source: Bloomberg

S&P 500 1982

Source: Bloomberg

S&P 500 1974

Source: Bloomberg

S&P 500 1970

Source: Bloomberg

There were 3 other instance of a 4-day, 10%+ rally since World War II but they overlapped an already existing 4-day rally. The three rallies that were excluded ended on 10/11/1974, 10/14/1974, and 11/28/2008, but we included the rallies ending on 10/10/1974 and 11/26/2008.

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