



Seasonalysis: A Powerful New Trading Tool For Stocks & Options

Introduction

Many people have observed that stock prices exhibit seasonal behavior. The old stock market adage, “*Sell in May and go away.*” is based on the observation that the period from November to April has shown considerably strong rise in stock prices than other months.

It is therefore logical to use seasonal patterns to anticipate future stock price behavior, no different than using fundamental data such as P/E ratios, or technical data such as moving averages. There appear to be many persistent and reliable seasonal patterns, which very likely reflect real underlying tendencies in stock price behavior. Although no mathematical proof is possible that seasonal tendencies will continue into the future, the proof of the pudding is in the eating – something that can be assessed only later in hindsight. But this is no different from any other indicator, be it technical or fundamental.

Making Money From a Seasonal Patterns

“Buy stocks that go up; if they don’t go up, don’t buy them” -- Will Rogers

The simplest way to make money in the stock market is to buy stocks that will go up, or sell short stocks that will go down. This is

called directional trading and what most investors try to do. One can also make money non-directional strategies as we discuss below.

The best way to explain what can be done is by example. If we look at the AAPL 20-day seasonal trade starting on October 5th, found using Seasonalysis the trade statistics are as follows.

20 Day Calendar Hold 10/05

Company:	Apple, Inc.		
Years:	1991 to 2010		
Average P/L:	7.9%		
Win %:	89.5%		
Std Deviation %:	6.03%		
1991	8.80%	2001	11.40%
1992	5.10%	2002	8.10%
1993	20.10%	2003	14.40%
1994	8.70%	2004	16.30%
1995	-1.40%	2005	2.30%
1996	12.90%	2006	0.30%
1997	7.60%	2007	3.40%
1998	13.80%	2008	7.20%
1999	9.70%	2009	2.40%
2000	-1.10%		

This looks like a reliable seasonal pattern that might repeat, so we can position ourselves for the expected move many different ways:

- ♦ Buy the stock on the close of Oct 5th and then sell 20 calendar days later.

Making Money From a Seasonal Patterns cont'd

- ◆ Buy a call if calls are inexpensive compared to the expected 7.2% average move.
- ◆ Sell a put that will be profitable if the stock behaves as expected.
- ◆ Buy or sell a bullish call or put spread that will profit if the stock behaves as expected.
- ◆ Sell an Iron Butterfly centered at 7.2% above the current market price, with wings say 1.5 standard deviations ($1.5 \times 6.03\% = 9.04\%$) above and below the center price.

There are many possible strategies to profit, particularly when using options. Our own preference is to use limited risk option strategies that have the potential for profit over a wide range, and have option premium time decay in our favor. But each trader needs to develop his or her own specific strategy. If you are unfamiliar with option strategies, then you need to learn about them before jumping in. Options are very powerful trading instruments, if you know how to use them.

Of course each one of the above strategies can be exited before the 20-day seasonal period is over, either to limit losses or to capture profits that might disappear if you wait the full 20 days.

A sensible limited risk strategy in which you know what you will do before you enter the trade is a pre-requisite for long term success.

Conclusion

Seasonal stock price patterns provide compelling information that can help inform your trading decisions regardless of how you trade, or be the basis of a purely seasonal

based trading system. We think that seasonal data provides a significant trading edge over other traders who don't look at seasonal tendencies.

But there is no sure thing in the stock market, so keep position size and risk small. And never risk more than you can afford to lose. Remember that to be around for the long term, its best to make your profits over many small trades, rather than playing Russian roulette with a few large bets in the market.

About Seasonalysis

Seasonalysis, a comprehensive seasonal stock pattern analyzer available for the iPhone, iPad, & iPod Touch. [Find out more.](#)

About Cyrillian

Cyrillian is an app development studio founded in 2007 by Illya Busigin in Ocala, Florida. Cyrillian is dedicated to creating exceptional iPhone, iPod Touch, and iPad applications under multiple genres. Cyrillian can also provide comprehensive software design and development services for *your* iPhone & iPad applications.

Contact Us

Email: info@cyrillian.com

Fax: 866-602-2979