How to Approach September in the Stock Market (2000 vs. 2010)

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September is known for being the worst month in the stock market.

Every year when September arrives, many are quick to warn that it's a bad month for stocks and new stock investments carry extra risk.

While they may be correct at times, quite often they're inaccurate because they tend to ignore the most critical factor for determining September's outcome, **the market**.

After all, **the market represents the collective opinion of stock investors from around the world**.

Therefore, it's a good idea to find out whether or not the market is in a position to decline during the month of September.

The only way to get this important information is to look directly at the market (stock charts) so **you can improve your attention to detail and get a broad perspective on price**.

This is critical because **your September outlook should be based on the market and not just on personal opinions or seasonal trends**.

By the way, **this approach never changes** because it's smart to follow the market and determine its position **before** adopting a bearish, bullish or neutral view.

Doing the opposite can be problematic and decrease your rate of success.

For example, you can claim to be bearish on the market, but if stocks are breaking out of bases and trending higher without any signs of weakness, **you're not being objective in your market analysis**.

There's a good chance that your outlook is based on your own personal opinion and it might even be largely influenced by your own stake in the market (long, short or flat).

I know that this is true because it's happened to me before.

One of the definitions (Dictionary.com) of **objective** is that an individual is "not influenced by personal feelings, interpretations, or prejudice; based on facts, unbiased."

I think that sums up "objective" perfectly when it comes to the stock market.

I'm amazed that people casually ask others for stock market advice when they don't even know if the person that they're asking is listening to the market's opinion before their own.

From my experience, **stock research is not directly about individual opinion, it's primarily about the market's opinion**.

Stan Weinstein, professional market analyst of 45+ years and author, mentioned that he only knew a few good market analysts.

This is likely because many favor their own personal opinion (minority view) instead of using the market's opinion (majority view) to make informed decisions.

In other words, **most are not objective when it comes to the stock market**.

If you would like a better chance to stay on the right side of the market, it's best to get the market's opinion first.

Nobody knows what the market will ultimately do for sure, but there are many things that you can look at to make a better decision that's based on the market's opinion.

For September, it's wise to focus solely on the market's price action to see if it sets up to decline or rallies based on its current position.

Let's compare **September 2000** with **September 2010** to see the key differences in what I'm talking about for the month of September.

September 2000

I'm going to focus on technology stocks for the September 2000 review.

The late '90s was all about technology and a majority of the market's strength was concentrated in that area.

The Internet build-out was gaining traction and every tech company had something to sell for the Internet.

Do you remember the term, **"New Economy?"**

It was popular back in the late '90s and in 2000.

Many people thought that things had changed and that the stock market would never go down because of the technological revolution (Internet).

However, **outside of technology stocks, many stock sectors were already declining and entering their own private bear markets**.

Because of this, the technology sector was very important to the market's health.

Typically, if techs aren't strong, it's okay because other stock sectors can lead the market higher.

In 2000, the market didn't really have this option and that's why technology stocks were vital to the market.

If the NASDAQ broke down, the stock market would be in trouble because most non-technology sectors were already in poor technical shape.

Adding to the thin market leadership, **September 2000 was 18 years from the major stock market bottom of August 1982**.

That's 18 years of rising stock prices (secular bull market).

Secular bull markets last from 15-20 years.

To put it lightly, **the stock market advance was long in the tooth because it was almost 20 years old**.

There are **three (3) main groups of technology stocks to focus on for September 2000**:

1. **Institutional Quality Tech Stocks** off the May 2000 Bottom.

2. **Speculative Tech Stocks** off the May 2000 Bottom.

3. **Tech Stocks that Broke Out of Bases** after the May 2000 Bottom.

Out of these three (3) groups, **the first two (2) groups or 66% were questionable** (technically) and the last group was extended and prone to decline if things took a turn for the worse.

This didn't inspire a lot of confidence in technology stocks.

The technical condition of stocks was a legitimate reason to be concerned that September 2000 may actually be bad for stocks.

This was a **fact from the market** and in 2000, it happened to match the dire warning that's often issued for the month of September.

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Group 1: Institutional Quality Tech Stocks (off the May 2000 Bottom)

Many market leaders that ran up sharply during 1999 and early 2000, fell rapidly during the **March-May 2000 period in the NASDAQ**.

During this time, the **NASDAQ dropped 40%**, but many high-flying tech stocks fell more than the market.

I2 Technologies (ITWO-no longer trading), a supply chain management software leader, fell 70% before mounting a rally in the Summer of 2000.

I2 never regained its leadership status like it had in the Fall of 1999 (broke out of a base ahead of the market in early October) despite a 185% rally off its April 2000 bottom.

Other liquid techs with strong sales and earnings growth (institutional quality) were finding support at or near their 40 Week EMA after big declines.

However, **the main problem with these stocks was that they were building immature bases at a time when the market started its big rally in late May 2000**.

In reality, they were not ready to break out and lead the market as they did before the **NASDAQ's March 2000 Top**.

As mentioned, this is not always bad because other stocks can lead a rally higher, but it was important to recognize given the **narrow market leadership**.

The simple fact was that many former growth leaders (BRCM, PMCS, TQNT, VRSN, JDSU, etc.) were stuck climbing back up to their old highs instead of leading the market rally out of bases.

This reduced the technology stock leadership from an important group (Institutional Quality Tech Stocks) off the May 2000 low.

As an example, in late May 2000, **PMC-Sierra** (PMCS) bounced off its 40 Week EMA for the first time since crossing it in October 1998.

PMC-Sierra then spent most of the summer chewing through resistance and climbing up the right-hand side of its base instead of leading the market like it had earlier in 2000 (see chart 1, page 3).

Unfortunately, after their big runs, technical leadership (base breakout and trend higher) was a tall order to fill for many beaten down tech stocks during the latter part of 2000.

Many techs rallied well over 100% from the May 2000 low and asking them to lead again was a lot to expect.

PMC-Sierra eventually failed its base breakout in September 2000 and then rolled over with the market later that year (see chart 2, page 4).

Former tech leader, **Ariba** (ARBA-no longer trading), broke out of a base in August 2000, but then failed its breakout just like PMCS (see chart 3, page 5).

Ariba had already rallied 170% before it broke out of a base in August 2000.

This was a big gain from its low and that was the problem with many technology stocks.

As specified earlier, **because of the steep sell off during the initial decline in the NASDAQ (March-May 2000), many former stock leaders were running up a hill during the Summer of 2000**.

This detail was worth paying attention to for market direction.

I remember buying **JDS-Uniphase** (JDSU) and **Network Appliance** (NTAP) during the Summer/Fall of 2000.

I missed the whole tech rally because I just learned about using charts to read the market in late 1999.

Would I get in on the stock market gains?

No, I was much too late and inexperienced, but I managed to cut my losses after my stocks failed to work.

That was definitely the correct move to make.

During the **Technology Bear Market of 2000-2002**, JDSU and NTAP fell 95%+ and are nowhere near their 2000 highs (13+ years later).

Cutting your losses and admitting you're wrong can save you from disastrous situations like the **2000-2002 Tech Bear Market**.

If I was eager to get into stocks during the Summer/Fall of 2000, wouldn't most stock investors feel the same way?

With technology already on everyone's radar, combined with stocks that have run up over 100% off the bottom of deep bases, it was hard to be confident in the leadership of institutional quality technology stocks.

Group 2: Speculative Technology Stocks (off the May 2000 Bottom)

Speculative stocks tend to go up a lot when the market is hot, but they can fall harder and faster than other stocks during market corrections.

Stocks with little to no earnings, but big sales growth were very popular investments during the NASDAQ's huge rally in late 1999 and early 2000.

To be clear, all stocks are speculative investments, but these stocks were the most speculative because they didn't have a history of profitability.

In addition, many speculative stocks were recent IPOs (**I**nitial **P**ublic **O**ffering).

New IPOs often outperform the market when speculation is alive and well in a bull market.

In 1999, technology IPOs were in heavy demand by stock investors.

Any company positioned towards the Internet was rapidly bid up by the market.

As an example, **Commerce One** (CMRC-no longer trading), a technology IPO focused on the B2B (Business-to-Business) sector, came public in June 1999 and advanced 1,275% by the end of 1999.

Commerce One then topped and fell 99% before declaring Chapter 11 bankruptcy protection in 2004.

In case you're wondering, this is relatively common when the market moves into a secular bear market.

Most stocks decline, but speculative names can fall much faster and some companies don't make it.

During the initial stage of a market correction, it's common for money to flow out of names that are more speculative and into large cap stocks because they appear safer/more insulated from an economic downturn.

This is exactly what happened to Commerce One and many other technology IPOs in 2000.

Large cap technology stocks like **Oracle** (ORCL), **EMC** (EMC), **Corning** (GLW), **Nokia** (NOK) and **Sun Microsystems** (SUNW-no longer trading) didn't fall as hard as the speculative names during the initial decline in the NASDAQ (see charts 4-7, pages 6-9).

Speculative names like **Infospace.com** (BCOR), **BroadVision** (BVSN), **Vignette** (VIGN-no longer trading), **Vertical Net** (VNET-no longer trading) and **Inktomi** (INKT-no longer trading) lost most of their market leadership during the NASDAQ's dive that started in March 2000.

More importantly, **in September 2000, many speculative technology stocks were not forming proper bases**.

A base is a precursor of market leadership and this was not a good sign for the market.

In fact, many speculative names failed to rally very much during the NASDAQ's 40% surge in the Summer of 2000, a bearish divergence (see chart 8, page 10).

If they couldn't rally during a strong market, how would they fare if the market resumed its decline?

Without question, **the NASDAQ rally was weaker because fewer technology stocks were leading the market's move higher that began in late May 2000**.

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In addition to the speculative names, **semiconductors** and **biotechnology**, two (2) leading industry groups from 1999, were not broadly responding to the upside that began in late May 2000.

For example, some semis with strong sales and earnings growth, looked just like the speculative names as they failed to get up off the mat during the NASDAQ's May-September 2000 Rally (see chart 9, page 11).

Other semis were failing base breakouts (BRCM, ADI, etc.) and causing trouble after initially rallying with the market.

Intel (INTC), an important technology stock, issued an earnings warning after the market closed on September 21, 2000.

This didn't help technology stocks the next day.

Many people assured that Intel's problems would only impact PC (personal computer) companies (Apple, Dell, Gateway, etc.), but they were incorrect.

Some even went so far as to recommend buying the chip giant (Intel) after it plunged on Friday, September 22, 2000.

The main problem with their advice was that it was not reflective of the market (majority opinion).

Do you remember what I said about stock research?

"Stock research is not directly about individual opinion, it's primarily about the market's opinion."

What did the market think about Intel?

It wasn't too good if you bought Intel's stock after its warning in September 2000.

Why?

Intel fell another 73% after it gapped down on September 22, 2000.

This example (INTC) shows why it's critical to listen to the market's opinion before listening to anyone.

The market (majority opinion) was selling Intel hard and this was very important information to know.

Technically, Intel undercut the low of its base, which was a price level well below its 40 Week EMA when it warned in late September 2000 (see chart 10, page 12).

Therefore, Intel wasn't even in a good technical position for an investment.

In the end and just like the speculative names, the **large cap tech stocks were a victim of intense institutional selling** as the bear market continued in September 2000.

William O'Neil (famous stock investor and founder of Investor's Business Daily) once said, "When they raid the house, they usually get everyone."

This was very true in late 2000 as the large cap tech stocks rolled over just like the speculative names had earlier.

Lastly, **Qualcomm** (QCOM), a big market leader since early '99, failed to even muster a rally during the NASDAQ's late May-early September run higher (see chart 11, page 13).

This was very telling and another sign that technology stocks were in trouble.

What do the Intel and Qualcomm examples teach us?

Before buying a stock, it makes a lot of sense to look at a stock chart to get the market's opinion.

Is the stock healthy, unhealthy or neutral?

This information is free and I encourage you to check a basic stock chart before diving into the market.

Using a stock chart will **help you protect your money in the market** because you will get an unbiased view of your stock of interest from the most important judge (the market).

If the market doesn't like your stock, you should probably pass on it for an investment.

Group 3: Technology Stocks that Broke Out of Bases (after the May 2000 Bottom)

The market (NASDAQ) rallied **40% off the May 2000 Bottom**.

Because of this uptrend, many stocks that were already sitting in mature bases and ready to lead experienced large gains.

This was positive for the market because stock leadership was still coming from technology.

Keithley Instruments (KEI-no longer trading) broke out of a base on June 2, 2000 and vaulted **215% in just over a month**. It topped in July 2000 and slid much lower as the bear market resurfaced in the Fall of 2000.

Newport Corporation (NEWP) broke out of a deep base (-65%) on the same day as KEI (see chart 12, page 14). Newport and Keithley Instruments were from the same industry group (group leadership). Newport topped in late September 2000 after a **200% gain**.

SDL Incorporated (SDLI-no longer trading), an institutional growth leader focused on fiber optic products, also broke out of a base in June 2000 and **advanced 110%** before topping in July 2000.

Fiber optics was a very hot area of technology during the **'98-'00 Technology Boom**.

SDL along with JDS-Uniphase (JDSU) were two of the most coveted fiber optic stocks by fund managers.

The Internet needed more bandwidth and fiber optic products were sold as the answer.

The topping of both stocks (and other Fiber Optic Stocks) was not a good sign for technology in the Fall of 2000.

This became even clearer when **Nortel Networks** (NT-no longer trading), a leading fiber optic stock, posted weak sales growth in late October 2000 and plunged 30% in one day.

Nortel's bearish revenue report helped start a major decline in some of the leading tech stocks that broke out of bases after the May 2000 Bottom.

This put the final nail in the coffin of most technology stocks after they held up reasonably well in September despite a weak stock market (see charts 13-19, pages 15-21).

The market spoke loudly and those who listened to the market (used stock charts) saw technology stocks breakdown in front of their eyes.

As it turned out, there was a glut of fiber optic equipment in the early part of the decade after a huge supply increase was deemed necessary to meet the Internet's growth and the Y2K concerns.

Homebuilding Stocks

Before I switch to **September 2010**, I wanted to quickly mention the **Homebuilders**.

The homebuilders started their 5+ year advance during the Summer of 2000 when technology was on its last leg (see chart 20, page 22).

In early 2001, the **Federal Reserve** was slashing interest rates due to the stock market collapse and the seeds were planted for the housing mania later on in the decade.

I remember many people saying, "Don't fight the Fed" when they started cutting interest rates in 2001.

This statement was left over from the prior secular bull market, but there was one major problem with it in 2000, **the market was entering a secular bear market**.

Apparently, you were supposed to buy stocks because the Fed's actions were going to save the stock market/economy.

That didn't happen for a long time (market bottom in October 2002 and upside in April/May 2003) and is all the more reason to check the market's opinion before listening to conventional wisdom.

If you bought technology stocks after hearing this common Wall Street phrase ("Don't fight the Fed"), you lost money because the **NASDAQ fell another 54% after the first interest rate cut**.

Because of the falling interest rates during the tech downturn, home affordability increased (mortgage rates fell) and more people were drawn into home ownership and away from stocks.

Sometimes certain stock sectors can lead despite a bear market. In late 2000, this was certainly the case with the Homebuilders.

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September 2010

September 2010 was year 10 of the secular bear market that began in 2000.

However, **September 2010 contrasted very differently from September 2000 for at least 5 reasons**:

1. **First Market Correction of the Uptrend** - The market correction that lasted from April to August 2010 was the first significant correction since the uptrend began in March 2009 (see chart 21, page 23).

   A similar situation presented itself in November 1971, September 1975 and November of 1978 during the **Secular Bear Market of 1966-1982**. Those dates were all low points in the first market correction of each respective cyclical uptrend.

   Additionally, during the **Secular Bear Market of 2000-201X**, stocks bottomed in August of 2004 before moving higher. This was also the first significant market correction of the uptrend that began in March 2003.

   At the start of September 2000, stocks had been rallying for 3 months off a low after crashing in the spring. It wasn't the first correction of an uptrend because stocks were locked in an 18-year secular bull market. The NASDAQ also completed a blow off move in March 2000 that included many tops in technology stocks (the strongest sector for the market).

   The 1st correction of a market uptrend is usually a temporary move lower that sets up a resumption of the uptrend.

2. **Undercut of a Low** - The deepest week of the NASDAQ's correction (Week ending 07/02/10) put in a bottom after undercutting the February 2010 swing point low (see chart 22, page 24). The market spent the next two months backing and filling (bases were building) before moving higher in September 2010.

   At the start of September 2000, the market was rallying into a high and didn't undercut a prior low. In fact, it almost took out its July 17th high of 4,289 on September 1st. Markets tend to reverse lower after taking out (surpassing) an old high (July 2000). This didn't happen in the Summer of 2000, but it's an important behavior of price to understand.

   During market uptrends, price may bottom after undercutting a prior low.

3. **Technology Stock Strength** - Technology stocks (among other sectors) were breaking out of bases and leading the market while it was still stuck in correction mode, a bullish divergence (see chart 23, page 25).

   At the start of September 2000, technology stock leadership was present, but it was getting thinner after many years of strength. This was important because many other stock sectors weren't leading (or setting up to lead) and the secular bull market was 18 years old.

Technology stocks tend to lead at the beginning of an economic expansion.

4. **Bases in Other Groups/Sectors** - In late August 2010, other sectors were basing and looked mature (ready to break out) (see charts 24-28, pages 26-30). The market's late August low was followed by base breakouts en masse over the next several months. These breakouts came from a broad background of industry groups/sectors, which indicated stock leadership was expanding.

   At the start of September 2000, other stock sectors were already weak, existing leadership was tired and/or extended and the market had little waiting in the wings to carry it higher.

   Many market uptrends start with stocks breaking out of bases.

5. **Negative Investor Sentiment** - Because of the **Flash Crash** (May 6, 2010) and the time of the year (September), many investors were bearish on the market. The AAII Bull/Bear Sentiment Survey registered a reading of 50% bears for the week ending 08/27/10. This was a high amount of negativity, but it was a secondary indicator to the market's price action. Given the positive technical condition of the market (primary indicator), it's not a surprise that the market rallied until May 2011 (see chart 29, page 31).

   At the start of September 2000 (according to AAII), most stock investors were bullish (56%) and there were very few bears (18%). Many people thought that stocks would continue higher after the spring correction. Unfortunately, technology stocks were vulnerable and stock investors late to the game were trapped with losses after the market declined in March-May 2000.

   Markets like to fool the majority and move when it's least expected.

So, is there really a specific approach for the month of September?

As shown in this historical review, **there is no difference in the way that you approach September than any other month**.

Why is this true?

Mainly because the market's opinion always comes first regardless of the month.

September typically performs poor for stocks, but this is a **secondary indicator to price**.

It's far more important to find out where the market stands technically before exiting the market due to the perception of a negative monthly/seasonal trend.

Looking at the market with stock charts will help you evaluate September's potential because you're aligning yourself with the majority of stock investors.

This requires attention to detail, but knowing what to look at is very helpful in preventing you from falling victim to personal opinion.

You can also use the market to help you evaluate the bearish seasonal trend that follows the month of April

In **May**, the advice often given is to "sell in May and go away", but it's a good idea to look at the market first to see if the bearish seasonal trend (May-October) is valid.

Keep in mind that sometimes a seasonal trend may be valid, but is short-lived because the market reacts normally.

For example, in **May 2000, the market declined nearly 12%**.

As a result, those who sold at the beginning of May were glad they listened to the bearish seasonal trend ("Sell in May and Go Away").

However, the market was in the process of retesting its April low in late May 2000 (see chart 31, page 33).

A retest of a low is a common price behavior that occurs when a market bottoms.

Ideally, the retest will be on lower volume than the initial low, but not always.

The NASDAQ then rallied 40% from its May 24th bottom (retest) to its July 17th high.

Many stocks experienced large gains off this low, which conflicted with the bearish seasonal bias and made a lot of investors confused on the market.

As for the **April 2010 Top**, the market showed heavy distribution for the week ending 04/30/10.

During that week (week ending 04/30/10), many stocks broke their 10 Week and 40 Week EMAs on heavy volume.

Stocks also exhibited weekly price reversals and churning, which are negative price behaviors within uptrends.

This all occurred underneath the surface of a moderate market decline for the week, but it was **very important to recognize the behavior of individual stocks**.

The following week (week ending 05/07/10), the market (Dow 30) crashed 1,000 points intraday and the "sell in May and go away" seasonal advice worked well because the **market started correcting the prior week**.

As we all know, the market continued downward until August 27, 2010.

In both examples above (2000 Market Low and 2010 Market High), **do you see how important it is to listen to the market over advice on seasonal trends?**

If you do this, you will have a more accurate view of the market.

More importantly, **you'll be in a position to be objective and identify the potential for the market to move higher or lower based on stock price behaviors**.

The NASDAQ fell nearly 13% in **September 2000** and began a vicious bear market that bottomed in October 2002. Stock leadership declined in important groups during the latter part of 2000. In 2000, the market was all about technology stocks and when they declined, the bull market in stocks was over.

The S&P 500 rallied 10% in **September 2010** and continued a bull market advance that began in March 2009. Stock leadership expanded as the market rallied until another correction took place in mid 2011.

Please >>CLICK HERE<< for the historical charts from 2000 and 2010.

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