

Barry Ritholtz, Market Strategist

Market Summary:

NYSE	6,073.02	+4.25	+0.07%
Nasdaq	1,960.30	+7.00	+0.36%
Dow	9,782.46	+2.89	+0.03%
S&P500	1,058.20	-0.25	-0.02%
Russell2000	546.51	+1.20	+0.22%
Nasdaq100	1,424.30	+4.20	+0.30%

The Big Picture:

Seasonality Revisited

Last week, we made reference to the historical *Seasonality* factors impacting Thanksgiving week trading. The feedback this generated made us want to revisit this issue in more detail. There seem to be some misconceptions about these Seasonal factors, both over the short term (Santa Claus Rally) and over longer periods of time (Presidential Cycles). There are several thoughts you should keep in mind when considering Seasonality:

1) **Statistics Are Not Guarantees:** Seasonality issues take past market history, and generate a statistical probability – not a guarantee – of future performance. Example: we noted last week that about 65% of the time, the days before and after Thanksgiving are net positive ones for the market. It goes without saying (although perhaps not) that about 1/3 of the time, the markets have closed negatively. Certainly, that's a nice statistical edge to have, its by no means a sure thing.

2) **"Is seasonality working at present?"** Look to the immediately prior period for strong clues as to whether any expected seasonality is likely to prevail. For example, the common expectation is to "Sell in May, then go away." But that presumes the November to April period – the strongest 6 months of the year – performed to expectations. Since we didn't see that this year, and the market had a serious sell off, and a rally off the lows 2 months prior to May, the odds for "Sell in May" working in 2003 was very low in our opinion (we mentioned this back in May). Anticipating when seasonality factors will fail is key. Conversely, some cyclical factors can confirm future market action. We previously discussed that the mid-term year of a Presidential cycle tends to be when market lows occur. That happened in 2002, and provides validation for another cyclical phenomena: the 4th year of Presidential Cycle tends to be when markets peak. It's a moderate probability bet that the market may top out sometime mid-2004.

3) **"Will expected Seasonality Continue Working?"** There are some aspects of the calendar based trading that seem to work most years: Consider "The January effect," where small caps outperform large caps the first month of the year. Based on calendar tax selling before the year's end, there's little reason to think that this will not happen this year.

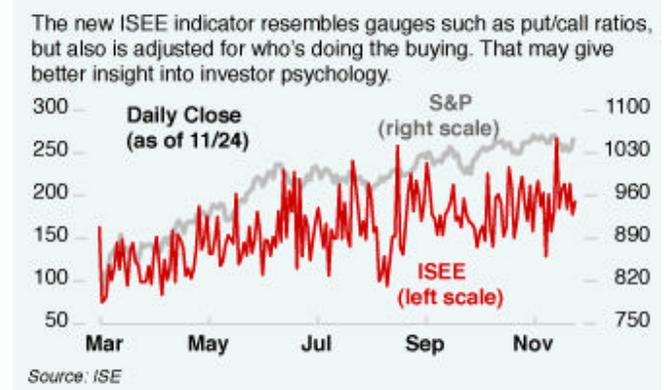
4) **"Has Seasonality become too widely anticipated?"** There are some issues – like the Santa Clause Rally – that have become well known – perhaps *too well known*. Traders position themselves in front of the expected activity. Thus, the Santa Claus Rally may come early this year.

Understanding how and why these factors work will improve your investment performance.

Chart of the Week:

[International Securities Exchange](#) devised a new contrary sentiment gauge: The ISE Sentiment Index ([ISEE](#)). ISEE is more than a mere put/call ratio. It distinguishes between options bought by investors from those sold (the motivations are very different)

New Contrary Indicator: ISEE



Source: [Barrons](#)

ISEE [data](#) focuses only on calls and puts bought by customers. According to Barron's, "That includes everyone from individuals to hedge funds and money managers, but excludes professional traders like market makers and the proprietary trading desks of Wall Street firms, whose option transactions often have no directional bias and are undertaken to hedge decisions in other markets." *This new contrary indicator will be worth watching.*

Economic Calendar:

MON 12/1 10:00 Construction Spending 10:00 ISM Mfg Index	THU 12/4 7:00 BOE Announcement 7:45 ECB Announcement 8:30 Jobless Claims
TUE 12/2 7:45 BTM-UBSW Store Sales	FRI 12/5 8:30 Employment Situation 10:00 Factory Orders
WED 12/3 8:30 Productivity and Costs 10:00 ISM Non-Mfg Index	

Random Items:

[Why Americans Must Keep Spending](#)

[Dollar decline raises new concern for US](#)

[Japan boom may be only false dawn, critics warn](#)

[No Basking in 'Black Friday' Glory](#)

[The riddle of the bonds](#)

[The Bubble of American Supremacy](#)

Quote: "A word to the wise is enough; for it is true, we may give Advice, but we cannot give Conduct." -[Benjamin Franklin](#)

This communication is neither an offer to sell nor a solicitation of an offer to buy any securities mentioned herein. This publication is confidential for the information of the addressee only and may not be reproduced in whole or in part; copies circulated, or disclosed to another party, without the prior written consent of Maxim Group, LLC ("Maxim").

Information and opinions presented in this report have been obtained or derived from sources believed by Maxim to be reliable, but Maxim makes no representation as to their accuracy or completeness. Maxim accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to Maxim. This report is not to be relied upon in substitution for the exercise of independent judgment. Maxim may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and Maxim is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report.

MAXIM GROUP LLC

LONG ISLAND 99 Sunnyside Blvd., Woodbury, NY 11797 Tel (516) 393-8300, Fax (516) 364-2518

MIDTOWN 405 Lexington Avenues, NY, NY 10174 Tel (212) 895-3500, Fax (212) 895-3555

CHICAGO 200 West Jackson Blvd., Suite 2000 Chicago, IL 60606 Tel (312) 554-2200, Fax (312) 554-1009

Sources:

ISE Data

http://www.iseoptions.com/marketplace/statistics/sentiment_index.asp

ISEE: New option sentiment gauge

<http://online.wsj.com/barrons/article/0,,SB107006300724442300,00.html>

ISE Launches ISE Sentiment Index (ISEE)

[http://www.iseoptions.com/about/press/pdf/press_releases/2003/ISE_Launches_ISE_Sentiment_Index%20\(ISEE\)_\\$20031201.pdf](http://www.iseoptions.com/about/press/pdf/press_releases/2003/ISE_Launches_ISE_Sentiment_Index%20(ISEE)_$20031201.pdf)

International Securities Exchange

<http://www.iseoptions.com/>

Why Americans Must Keep Spending

<http://www.nytimes.com/2003/12/01/business/01econ.html>

Dollar decline raises new concern for US

<http://www.csmonitor.com/2003/1125/p02s01-usec.html>

Japan boom may be only false dawn, critics warn

<http://www.chicagotribune.com/news/local/chi-0311280260nov28,1,7491540.story>

The riddle of the bonds

http://www.economist.com/agenda/displayStory.cfm?story_id=2244281

The Bubble of American Supremacy

<http://www.theatlantic.com/issues/2003/12/soros.htm>

No Basking in 'Black Friday' Glory

<http://news.moneycentral.msn.com/breaking/breakingnewsarticle.asp?feed=OBR&Date=20031201&ID=3151330>

Benjamin Franklin

<http://www.english.udel.edu/lemay/franklin/>