How to Recognize Money-Making Trends in The Market — And Boost Your Profits

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With an ever-changing market always in play, investing is more than just securing capital and throwing it into a project. Having a secure and adaptable investment strategy can help you make a more informed decision. A sound investment strategy will not only help an investor make decisions based on expected returns but also based on their goals and capital. While holding on to high-quality stocks is a must, it's not the only thing an investor needs to look out for.

As an investor and entrepreneur, I have to be on the lookout for profitable sectors and anticipate how they will perform and when. Not all sectors reflect good performance and positive numbers all the time. Some may even experience seasonal changes or trends in the short and medium term. That's why seasonal investing is something everyone should pay closer attention to.

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What is seasonal investing?

When I develop my seasonal investment strategy, I first look at which seasonal businesses and sectors are trending in a positive favor. A seasonal business is one where there's a large influx in sales and brand or product demand at specific points of the year. Since these are not annual services or businesses, finding one that is trending well and at the right

time was difficult in the beginning – but with practice, it became easier.

Once an investor finds a seasonal business or venture in which to invest, it’s time to define the term of the investment. Seasonal investments always have a start and end date and either a price strength or weakness between those dates for the commodity, equity or index. These should be timed to follow the trend. Also, by definition, it’s been found that a seasonal investment is generally profitable over 50% of the time.

Seasonality and investing

To understand seasonal investing and how to succeed with it, it’s essential to know about seasonality. Seasonality is a predictable occurrence of annual events that affect entire industries, stocks, or companies. These recurring patterns help seasonal investors understand the market in real-time and see where the trends start and end. Understanding seasonality patterns can also help shape your seasonal investment strategy and show you the best time to invest and for how long.

The entire purpose of seasonal investing is to understand these trends and take advantage of them at the correct moment. Familiarizing yourself with the patterns and measuring how they affect each industry is the best way to begin formulating a strategy that’s adaptable to the market’s seasons.

How to measure seasonality

Seasonality can be measured by answering three questions:

1. What’s the average return (%) during the period of interest?
2. How reliable is the number expressed compared to profits from the ten previous periods?

3. How well did the potential investment perform relative to a significant equity index (ex. S&P 500, Index TSX)

Use these questions to help you determine the seasonality of something you're interested in investing in. Once you've measured the seasonality, you'll be able to begin identifying seasonal trades.

How to identify seasonal trades

Seasonal trades can help indicate a period of strength and further ensure a solid seasonal investment. Some key methods to help identify seasonal trades are:

1. Watch what the fundamental analysts are saying regarding seasonality. Then, base their comments and data against a ten-year study. If the trends are still present, then they're accurate.
2. You can also use ten-year studies to see recurring spikes in seasonality and determine trend strength and length.
3. Utilizing trends and seasonality identification, you can track companies and sectors and see when their most profitable quarters are.
4. Data of at least ten years can help identify equities and sectors that showcase times of above-average gains relative to their index.

How does the stock market undergo seasonal change?

With the stock market always in motion, it is also affected by seasonality and seasonal change. There are four distinct times to be aware of, primarily when you're seasonally investing:

- **The December effect:** To limit taxable capital gains, stocks that have performed well nearly all year are not

sold in the final month.

- **The January effect:** With new budgets being implemented and early changes occurring in the market, many investors tend to pull back and wait to protect their portfolios from an uncertain start to the year.
- **New months and monthly change:** Different emerging trends over multiple months can cause patterns to form. These, in turn, affect stock price and performance based on consumer or market activity.
- **The Monday blues:** The market traditionally does not rise or perform well following the weekend. It's usually not advisable to buy on Mondays, especially during volatile seasons.

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What are the cons of seasonal investing?

As with all investment positives, you should know the potential downsides to seasonal investing. While you can't avoid every issue along the way, every intelligent investor is at least aware of some of the bigger ones that can occur when seasonal investing.

Remember, just because historical trends have stayed strong and recurrent does not mean they're guaranteed to remain that way. The market is always going to remain unpredictable. Just because you may have tracked the seasons correctly doesn't mean you can get them precisely to the very day. You must stay vigilant and always keep time on the market. If you don't, you risk re-entering on a terrible day for gains and may end up hurting your portfolio,

Strategy and understanding of trends are helpful but can only mitigate potential risk so far. Many markets are known to be

volatile, and even when the forecast seems somewhat certain, it may not be the best avenue to explore for those who want to make huge gains for their retirement portfolios. More long-term investment is often the standard for those with this goal in mind.

Is seasonal investing the right way to go?

Doing the proper research and choosing companies or projects you think can weather market changes is a solid piece of investing advice. That alone can help drive some growth in the long term. However, once you begin to recognize the patterns and understand the seasonal periods in which certain companies perform better than others, your attention may just shift toward seasonal investing.

These patterns and seasonal changes in the markets, especially over a set number of years, can provide some investors with an interesting map that may help their portfolios perform well all year long or even be a key to long-term riches. The only way to know is to study and then start investing. That way, you can enjoy the returns later down the road.

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