

## Does the World Series outcome affect stock market returns? I wouldn't bet on it

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It's always interesting to hear how people use **statistics** in everyday conversation.

I was having lunch with a couple of friends yesterday at a local burger joint and, being baseball fans, we started talking about the MLB World Series.

"I can't believe the Giants upset Detroit!" one of them exclaims. "**You know what that means for the stock market in 2013.**" (*That's code for "I'm about to tell you what the stock market will do next year."*)

So go ahead Nostradamus, let me have it.

He continues, "Over the past 40 years, the market<sup>1</sup> has averaged 11% the year after a National League team wins the World Series, but only 5% when an American League team wins. **And 60% of the years with negative returns have followed an AL World Series victory.**"

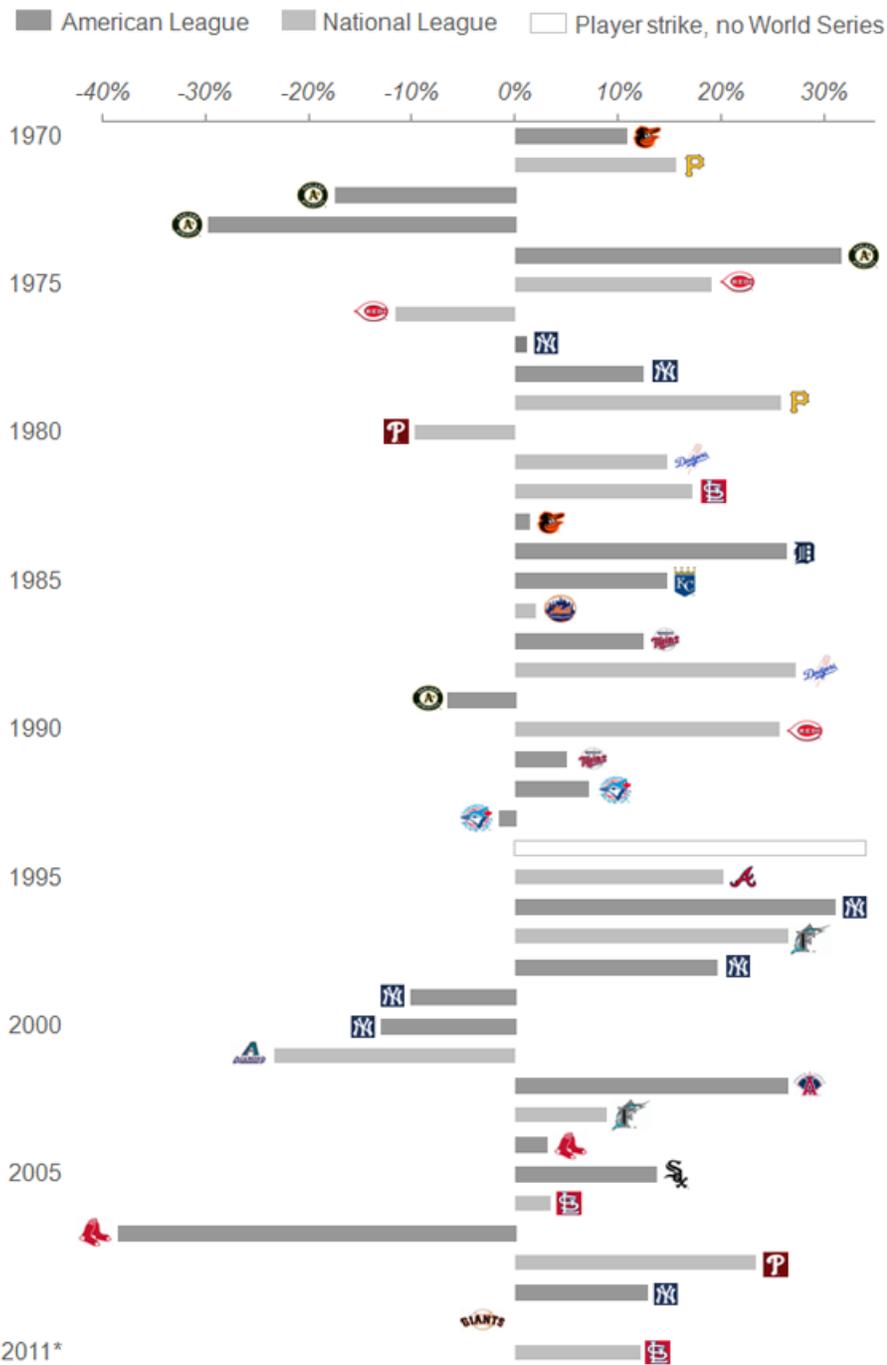
"Since the Giants took the title," he concludes, "I'll probably go all equities in my 401(k) for 2013."

I nearly choked on a fry. **Was he serious?**

Each October, dozens of articles highlight some version of this statistical relationship and encourage - or at least stimulate - some version of my friend's opinion. Why not? **It's a fun thing to talk about. But to take action on it is quite a different thing.**

Though my intuition needed very little to confirm that this is a poor investment strategy, **I chose to explore the evidence before deciding.**

## MLB World Series Winner vs. Annual S&P 500 Return the Following Year 1970-2011



\*Return YTD as of October 26, 2012. Source: Google Finance, Annual S&P 500 Returns

I found that my friend was right about the stats he quoted but, as I suspected, **flawed in his decision to use those stats** as the basis for how to allocate his retirement portfolio. As you can see in the chart to the left, American League champions have experienced plenty of great years (dark gray bars). Additionally, a handful of lackluster years have followed National League victories (light gray bars). Enough to convince me that the World Series outcome has insignificant-to-no impact on the U.S. stock market!

Even without the analysis, what my friend is talking about is his 401(k): retirement investing! Russell believes the strategy should be long term, diversified, and based on more than the outcome of a baseball game.

Next time I see my friend, my advice will be some version of the following: **The market is not that predictable.** Let's hope investors didn't take your bullish stance after the Diamondbacks – also a National League team – won the 2001 World

Series and the market promptly dropped over 23% the next year!

Consider **diversifying your portfolio** so you're positioned to take part in the positive returns and to help protect against the negative returns, because you really can't be sure when either is coming.

**Hope you enjoyed the World Series!**

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<sup>1</sup>Source: S&P 500 Index annual returns

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S&P 500 Index: An index, with dividends reinvested, of 500 issues representative of leading companies in the U.S. large cap securities market.

Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

Diversification does not assure a profit and does not protect against loss in declining markets.

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