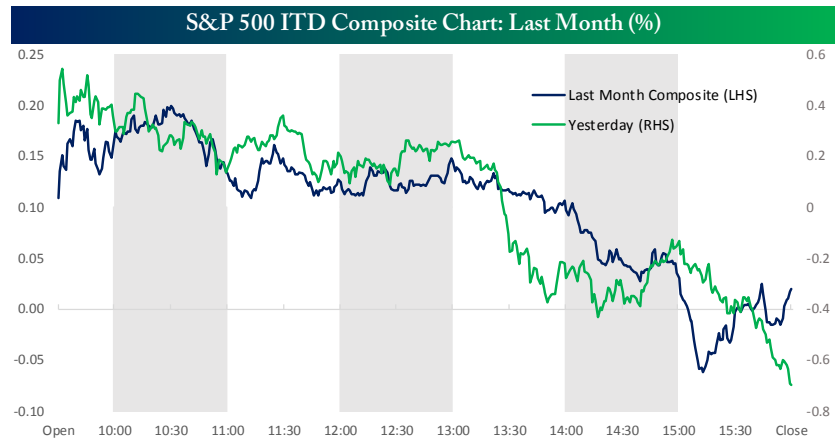




Buy At The Close, Sell In The Morning

If you trade intraday, you've probably noticed the strange pattern equity markets have been locked in for the past several weeks. Strong opens build momentum, then start giving up gains between noon and 1 PM. The weakness continues into the afternoon, gearing up again around 3pm before an occasional bounce into the close. Yesterday's price action was similar, albeit lacking any mid morning rally to accompany the opening jump.

At right is a chart that compares the average intra-day price pattern of the S&P 500 to yesterday's trading. It's important to note that the scales are different; our point here is that the pattern is remarkably similar and will stand out to traders who have seen the exact same thing so many times recently.



With stocks higher at the open than the close almost every day, what are investors to do? Simple: buy low and sell high. Below is a chart of cumulative returns year-to-date for five different scenarios: buying at the close and selling at the next open, 10 AM, 11 AM, noon, or next close. Buying the close every night and selling at the open the next morning led to an outperformance of 2.25% versus buying the close and selling at the close each day. 10 AM has been the strongest time to close a long position this year with returns 4.98% higher than buy and hold. This pattern can't last forever, and will probably start to break down as it becomes more widely recognized. It is still interesting to say the least, and quite frankly we're surprised it's been so persistent.

