Chart of the Day: Heed the Gap

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COTD Bullet Points:

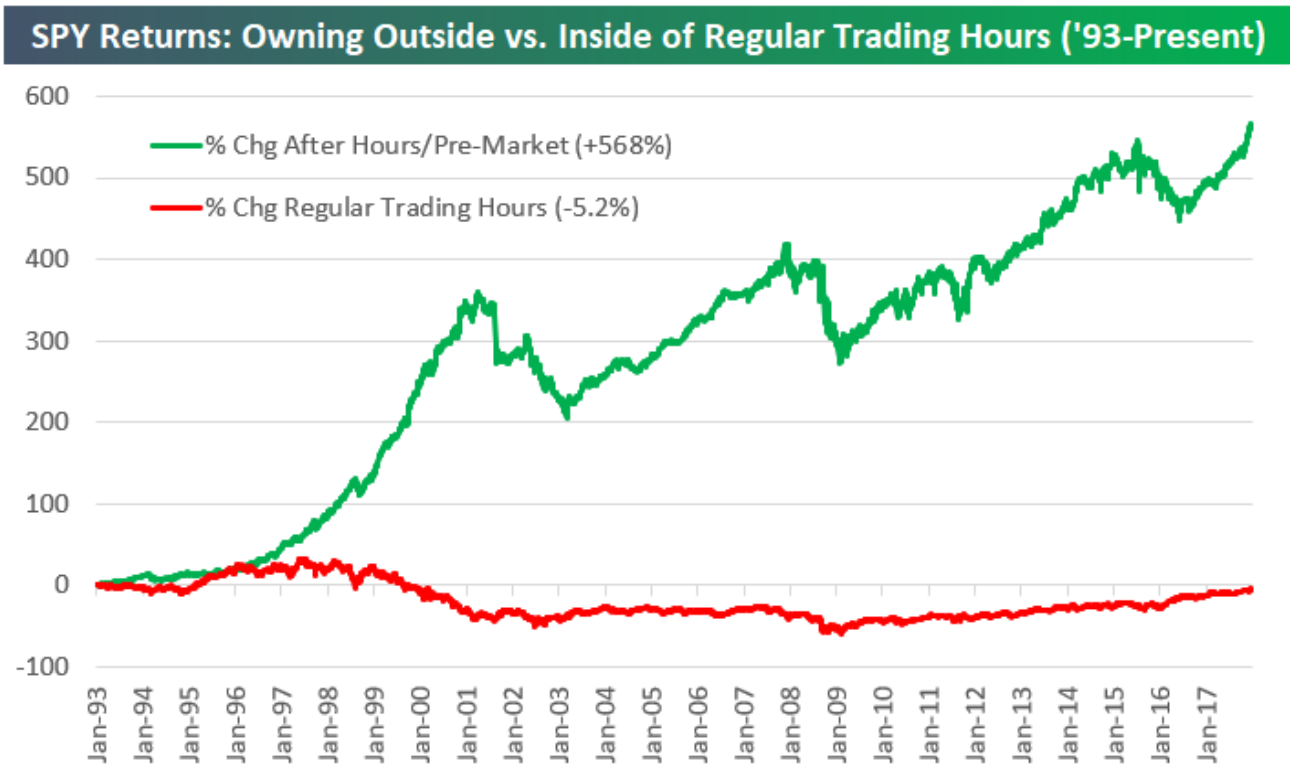
- *A huge amount of the market's performance comes outside of regular trading hours.*
- *Over the last year, more of the market's gain has come in after hours and pre-market trading than during regular trading hours.*
- *In terms of the market's health, we'd prefer to see stronger buying during the trading day, but that hasn't been the case lately.*

Chart of the Day:

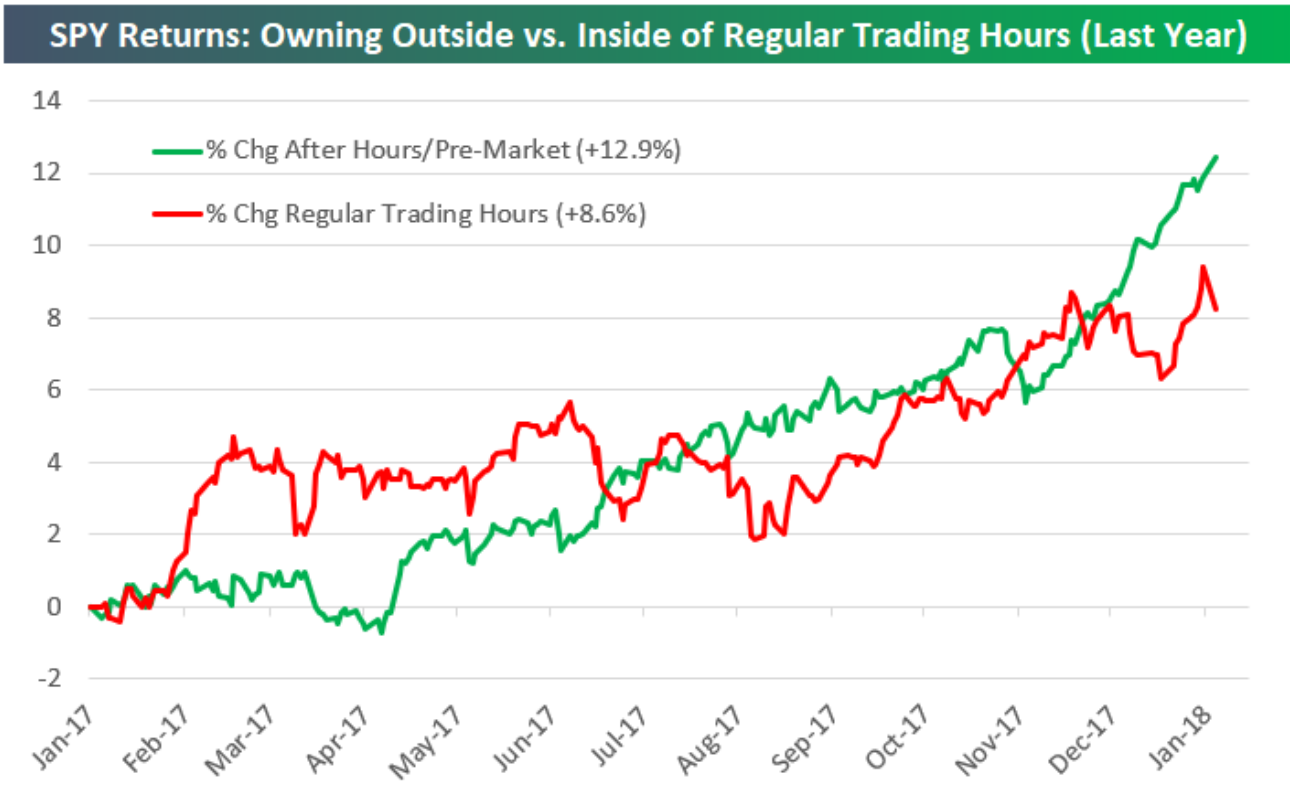
Below is quite an amazing chart that breaks down the cumulative price change of the S&P 500-tracking SPY ETF since it began trading way back in 1993. (Yep, SPY has been around for 25 years already!) Only in this chart, we look at the performance of SPY outside of normal trading hours versus its performance during normal trading hours. Have you ever wondered how much of the market's performance comes after hours or pre-open before the official trading day begins at 9:30 AM ET? You might think it's a lot given that much of the news that moves the market comes after hours (earnings reports) or before the open (earnings, economic indicators). But would you believe that since SPY began trading, ***more than*** 100% of its share price gain has come outside of regular trading hours? Indeed that is the case.

If you had bought SPY at the close every day since 1993 and sold it at the open on the next trading day, your cumulative price gain would be 568%. Had you done the opposite and bought SPY at the open on every trading day and sold it at the close that same day, you'd actually be ***down 5.2%*** since 1993.

As you can see in the chart, there was a period from early 1998 through 2002 where the market did nothing but go down during regular trading hours, and even the current bull market that we've been in for the last 9 years hasn't pushed the "regular trading hours" reading back into positive territory.



Even looking back just over the last year, we see that more of SPY's price move higher has come outside of normal trading hours. As shown below, you'd be up 12.9% over the last year if you bought SPY at the close and sold at the open on the following trading day. If you had bought at the open and sold at the close, you'd be up just 8.6%.



Below we take a look at the numbers on a rolling 200-day basis instead of on a cumulative basis. This allows us to see if there have been periods where investors have been bidding up the market at the open of trading only to sell it off hard throughout the trading day. That's the

type of underlying breadth scenario that investors don't like to see.

Over the last 200 trading days, the S&P has averaged a move of +0.06% outside of regular trading hours (a gap up of 0.06% at the open versus the prior day's close). During regular trading hours (open to close), the S&P has averaged a smaller gain of 0.02% over the last 200 trading days.

In the chart below, you can see that beginning in 2016, we saw a big tick higher in intraday buying. That intraday buying peaked by late 2016, however, and since then we've seen the market's performance during regular trading hours become weaker. As intraday gains have weakened, we've seen the market's performance during after hours and pre-market trading get stronger. If anything, we'd prefer to see the opposite, where the market has flat opens and strong gains throughout the trading day. But that simply hasn't been the case lately.