



Stock Market Superstition and Super Bowl Theory – Update 2009

Superbowl Theory is an interesting and fun topic for discussion at a cocktail party, but clearly not a strategy to hang your hat on....especially based on last year's prediction! We've updated the chart below to reflect the new Superbowl Championship Team – the Pittsburgh Steelers. Considered an old NFL team (now currently part of the American Football Conference (AFC)), Pittsburgh eked out a 27 to 24 win over the Arizona Cardinals in the last 48 seconds of the game. According to the Theory, 2009 should prove to be a bullish year for the stock market!!

Super Bowl Theory goes that a victory by an AFC (American Football Conference) Team signals a (declining) bear market, while a victory by an NFC (National Football Conference) team or an original (pre-1970 merger) NFL team points to a (rising) bullish stock market, as represented by the Dow Jones Industrial Average (DJIA) in the upcoming year.

Why write about this? Well, aside from the fact that it is clearly superstition (and in our opinion having no valid basis for predicting the market), it's just another one of a multitude of market theories that people find fascinating, especially as it re-emerges every year at this time. Therefore, we thought we'd share what we found out about it with our readers.

To begin with, it is believed that the correlation between the Super Bowl and the stock market was first noted in the late 1970's by New York investment advisor Robert Stovall, where he was an investment policy director at the old Dean Witter Reynolds (and most recently a Managing Director and Strategist of Wood Asset Management in Sarasota, FL).

As noted below, for the first 31 years of the game, it was right 28 times, or an amazing 90.3 percent of the time. Overall, it claims a correct predictive percentage of just under 80% for its entire history. However, it's really not clear how this indicator works in the case of expansion teams, which is why this Theory seems to have lost some of it's supposed predictive capabilities most recently. It has been a somewhat less reliable indicator during the last decade, however, (correct only 50% of the time), as several of the teams involved in the Super Bowl were either formed after the 1970 NFL-AFL merger or changed their name in a post-merger relocation. For example, in 2003 and 2004 both the Tampa Bay Buccaneers and the Carolina Panthers were both expansion teams, while the 2007 Super Bowl was between the Indianapolis Colts and the Chicago Bears, two original (old) NFL teams.

The following table contains the Super Bowl year/date, the teams/conferences involved and their scores, the market indicator for the winning team conference, the actual percentage price return for the DJIA and when the indicator was wrong.

SB #	Date	Teams and Affiliated League	Winner	DJIA% price return*	result
I	Jan. 15, 1967	Green Bay (NFL) 35, Kansas City (AFL) 10	NFL +	15.2%	
II	Jan. 14, 1968	Green Bay (NFL) 33, Oakland (AFL) 14	NFL +	4.3%	
III	Jan. 12, 1969	New York (AFL) 16, Baltimore (NFL) 7	AFL -	-15.2%	
IV	Jan. 11, 1970	Kansas City (AFL) 23, Minnesota (NFL) 7	AFL -	4.8%	WRONG
V	Jan. 17, 1971	Baltimore (AFC) 16, Dallas (NFC) 13	old NFL +	6.1%	
VI	Jan. 16, 1972	Dallas (NFC) 24, Miami (AFC) 3	NFC	14.6%	
VII	Jan. 14, 1973	Miami (AFC) 14, Washington (NFC) 7	AFC -	-16.6%	
VIII	Jan. 13, 1974	Miami (AFC) 24, Minnesota (NFC) 7	AFC -	-27.6%	
IX	Jan. 12, 1975	Pittsburgh (AFC) 16, Minnesota (NFC) 6	old NFL +	38.3%	
X	Jan. 18, 1976	Pittsburgh (AFC) 21, Dallas (NFC) 17	old NFL +	17.9%	
XI	Jan. 9, 1977	Oakland (AFC) 32, Minnesota (NFC) 1	AFC -	-17.3%	
XII	Jan. 15, 1978	Dallas (NFC) 27, Denver (AFC) 10	NFC +	-3.1%	WRONG
XIII	Jan. 21, 1979	Pittsburgh (Old NFL/AFC) 35, Dallas (NFC) 31	old NFL +	4.2%	
XIV	Jan. 20, 1980	Pittsburgh (Old NFL/AFC) 31, Los Angeles (NFC) 19	old NFL +	14.9%	
XV	Jan. 25, 1981	Oakland (AFC) 27, Philadelphia (NFC) 10	AFC -	-9.2%	
XVI	Jan. 24, 1982	San Francisco (NFC) 26, Cincinnati (AFC) 21	NFC +	19.6%	

XVII	Jan. 30, 1983 Washington (NFC) 27, Miami (AFC) 17	NFC +	20.3%	
XVIII	Jan. 22, 1984 L.A. Raiders (AFC) 38, Washington (NFC) 9	AFC -	-3.7%	
XIX	Jan. 20, 1985 San Francisco (NFC) 38, Miami (AFC) 16	NFC +	27.7%	
XX	Jan. 26, 1986 Chicago (NFC) 46, New England (AFC) 10	NFC +	22.6%	
XXI	Jan. 25, 1987 New York Giants (NFC) 39, Denver (AFC) 20	NFC +	2.3%	
XXII	Jan. 31, 1988 Washington (NFC) 42, Denver (AFC) 10	NFC +	11.8%	
XXIII	Jan. 22, 1989 San Francisco (NFC) 20, Cincinnati (AFC) 16	NFC +	27.0%	
XXIV	Jan. 28, 1990 San Francisco (NFC) 55, Denver (AFC) 10	NFC +	-4.3%	WRONG
XXV	Jan. 27, 1991 New York Giants (NFC) 20, Buffalo (AFC) 19	NFC +	20.3%	
XXVI	Jan. 26, 1992 Washington (NFC) 37, Buffalo (AFC) 24	NFC +	4.2%	
XXVII	Jan. 31, 1993 Dallas (NFC) 52, Buffalo (AFC) 17	NFC +	13.7%	
XXVIII	Jan. 30, 1994 Dallas (NFC) 30, Buffalo (AFC) 13	NFC +	2.1%	
XXIX	Jan. 29, 1995 San Francisco (NFC) 49, San Diego (AFC) 26	NFC +	33.5%	
XXX	Jan. 28, 1996 Dallas (NFC) 27, Pittsburgh (Old NFL/AFC) 17	NFC +	26.0%	
XXXI	Jan. 26, 1997 Green Bay (NFC) 35, New England (AFC) 21	NFC +	22.6%	
XXXII	Jan. 25, 1998 Denver (AFC) 31, Green Bay (NFC) 24	AFC -	16.1%	WRONG
XXXIII	Jan. 31, 1999 Denver (AFC) 34, Atlanta (NFC) 19	AFC -	25.2%	WRONG
XXXIV	Jan. 30, 2000 St. Louis (NFC) 23, Tennessee (AFC) 16	NFC +	-6.2%	WRONG
XXXV	Jan. 28, 2001 Baltimore (Old NFL/AFC) 34, N.Y. Giants (NFC), 7	old NFL +	-7.1%	WRONG
XXXVI	Feb. 3, 2002 New England (AFC) 20, St. Louis (NFC), 17	AFC -	-16.8%	
XXXVII	Jan. 26, 2003 Tampa Bay (NFC) 48, Oakland (AFC) 21	NFC +	25.3%	
XXXVIII	Feb. 1, 2004 New England (AFC) 32, Carolina (NFC) 29	AFC -	3.1%	WRONG
XXXIX	Feb. 6, 2005 New England (AFC) 24, Philadelphia (NFC) 21	AFC -	-0.6%	
XL	Feb. 5, 2006 Pittsburgh (Old NFL/AFC) 21, Seattle (NFC) 10	old NFL +	16.3%	
XLI	Feb. 4, 2007 Indianapolis (AFC) 29, Chicago (NFC) 17	old NFL +	11.4%	
XLII	Feb. 3, 2008, New York Giants (NFC) 17, New England (AFC) 14	NFC +	-33.8%	WRONG
XLIII	Feb. 2, 2009 Pittsburg (Old NFL/AFC) 27, Arizona (AFC) 24	old NFL +	TBD	

Sources: College Mathematics Journal, Betson Connection, About.com, Stock Traders Almanac

*Price return only measures how prices have changed. For example, when you read that the DJIA was down 0.61% in 2005, this is only its price return. While Dow investors lost 0.61% on a price return basis, they also received dividend income of 2.33%. Adding the negative 0.61% price return to the 2.33% dividend return gives a total return of 1.72%.

Let's hope the indicator is right this year....but then again...there are so many more indicators that you could point to if you didn't like the results of this one.....

For example, there's the **Hemline Theory**, which suggests that when hemlines in the fashion world drop, the DJIA is likely to fall. Conversely, when hemlines rise, the Dow is likely to increase. The underlying basis suggests that when women wear short skirts they go out and attract the attention of men. This leads to more dates/meetings, which in turn generates increased business for the food and leisure industries. This theory supposedly worked really well during both the 1920's and the 1960's when hemlines were high and again in the 1930's and 40's when hemlines were very long. However, if you were to look around today, one might think the DJIA is heading to the moon!!!!

There's also the **Lipstick Theory** Indicator, made popular by Leonard Lauder (of Estee Lauder), who found that during tough economic times, his lipstick sales went up. This suggested that when women are concerned about the economy, they treat themselves to low-cost luxuries like lipstick. Therefore, the more lipstick they buy, the worse things look for the stock market! According to Investopedia, this indicator has been quite a reliable signal of consumer attitudes over the years. For example, in the months following the Sept 11 terrorist attacks, lipstick sales doubled.

Then there's the **Aspirin Theory**, which suggests that when people are worried about stocks and the economy, they have more headaches and tend to buy more aspirin...

On the other hand, there are those theories, or market cycles, such as Kitchin, Juglar, Fibonacci, Kondratieff, etc., that are based on more complex numerically based assumptions that many technically based traders refer to on a regular basis. Somewhere in between myth and cycle is the **January Effect** and the theory that 'As January Goes, So Goes the Market' (let's hope not!). This suggests that if prices end the month of January higher/lower, then the stock market at the end of the year will end similarly - higher or lower. Interestingly, between 1950 and 1993, this theory is said to have forecasted the market correctly 38 out of 44 years, or 86% of the time. Still, some argue that this has more to do with insights into investor confidence levels than it does about economic data or the stock markets.

More popular yet, is the **Presidential Election Cycle Theory**. In general, this theory suggests that stock prices fall during the first half of a Presidency, reaching the trough in the second year, then rise again during the second half of a Presidency, reaching the peak in the third or fourth year. But we'll save that discussion for a later date, given that this is the first year of a new presidential cycle!!

While there are numerous theories, myths and superstitions relating to the stock market, we only touched on a few. Interestingly, there are investors that may secretly believe in such theories or folklore, including some stock market myths and legends that may be quite bizarre. Serious investors, however, tend to focus on more meaningful market fundamentals and data. That said, we continue to reiterate our view that having an appropriate asset allocation (based on your individual investment objective and risk tolerance) and a proper level of diversification in your investment portfolio is the most prudent way to go, regardless of market hype and/or crazy folklore. That said we'll keep our fingers crossed that performance returns during 2009 will prove to be far more rewarding than in 2008!!!