

Years Ending In “5”

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This year should be another good one for the stock market. How do I know this? 2005 ends with the number “5.” Since 1925, there have been eight years ending with the number “5.” The average gain in the S&P 500 for these years has been an incredible 27.4%. Seven of the gains were at a double-digit rate, with 1965 providing still solid appreciation of 9.1% (Figures 1 and 2). Figure A sorts the years since 1925 by last digits from 0-9 showing just how unusual years ending in “5” have been. There is no consistent pattern in either earnings or the valuation multiple to explain this phenomenon. Sometimes the “up-big-in-5” was driven by earnings, sometimes valuation, and sometimes both. The bond yield—a key determinant of valuation—has both increased and decreased during years ending in “5” (Figure B).

Figure A: S&P 500 During Years Ending in “0” to “9”, 1925-2004

Years Ending	Average % Change	Number Positive	Number Negative	Number Unchanged
0	-2.0	3	5	0
1	-1.4	4	4	0
2	1.1	5	3	0
3	14.0	6	2	0
4	5.6	5	3	0
5	27.4	8	0	0
6	8.2	6	2	0
7	2.5	4	3	1
8	18.5	7	1	0
9	6.1	5	3	0

Source: Yardeni.com and Haver Analytics.

Figure B: S&P 500 During Years Ending in “5”

Year	% Change S&P 500	% Change S&P 500 Earnings*	% Change S&P 500 P/E**	Bond Yield Change***
1995	34.1	11.0	20.8	-48
1985	26.3	-12.2	43.8	-124
1975	31.5	-10.5	46.9	0
1965	9.1	14.1	-4.4	6
1955	26.4	30.7	-3.3	29
1945	30.7	3.2	26.6	-11
1935	41.4	55.1	-8.8	-33
1925	19.8	34.4	-10.9	-10

* Reported earnings.

** P/E based on reported earnings.

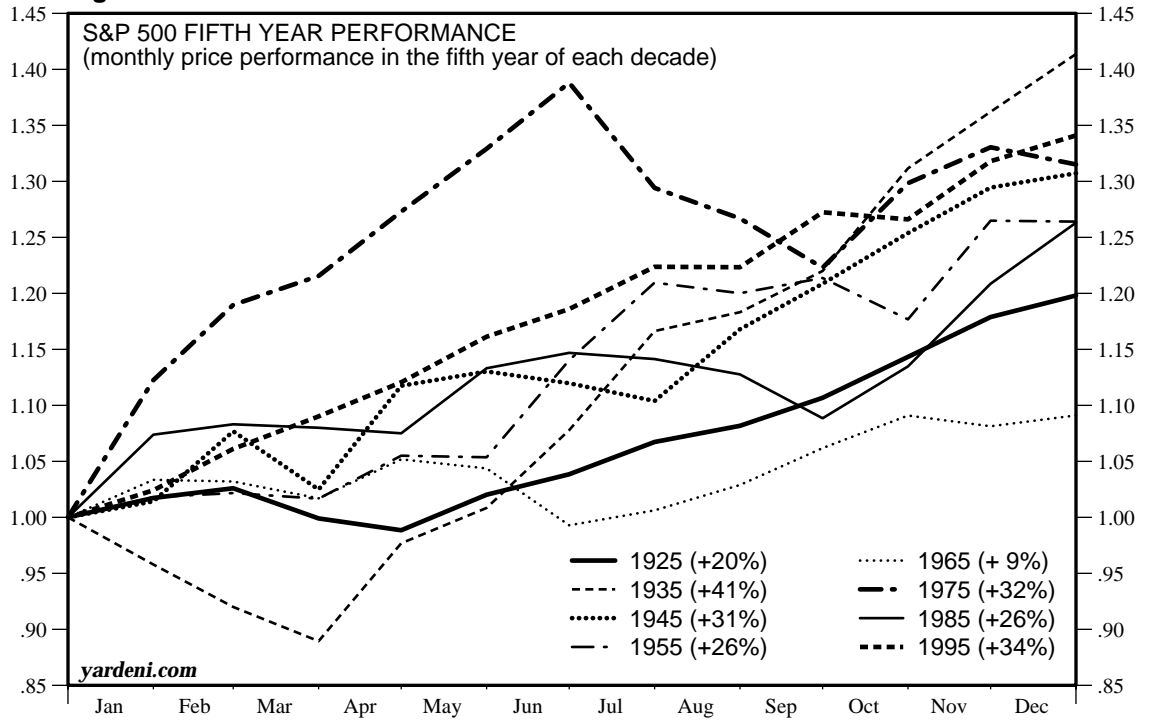
*** Long-term Treasury bond composite (over 10 years). Annual change is in basis points.

Source: Yardeni.com, Haver Analytics, and Board of Governors of the Federal Reserve System.

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- S&P 500 Fifth Year -

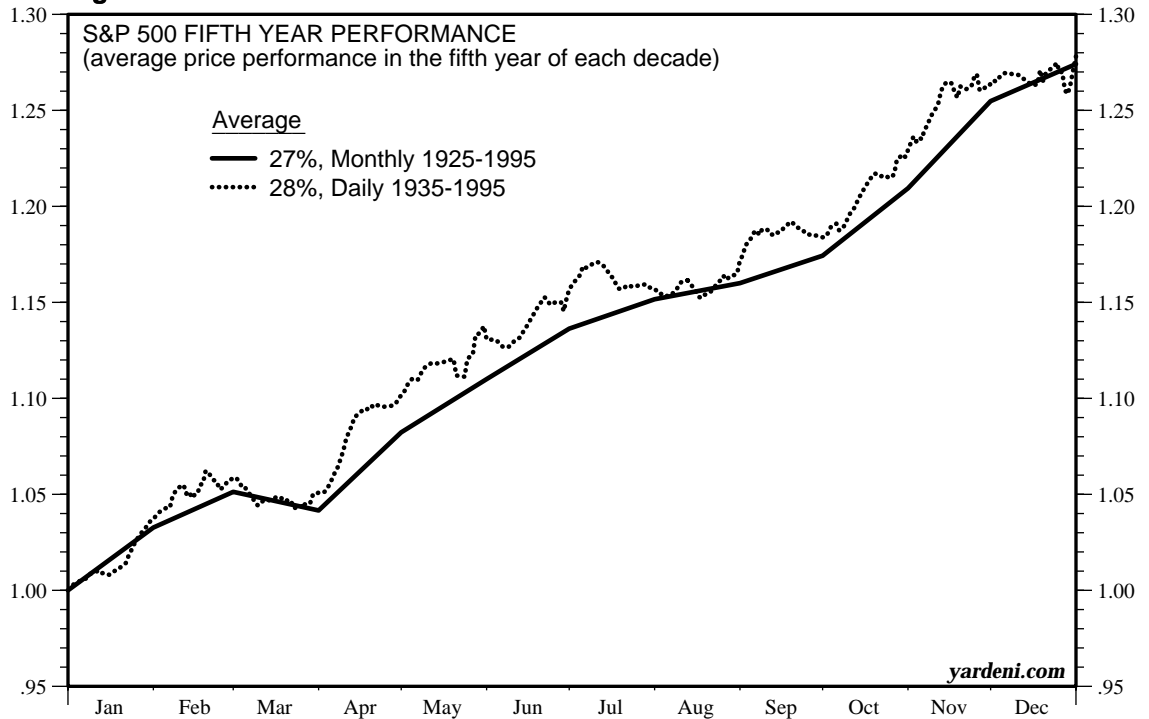
Figure 1.



Source: Standard & Poor's.

Since 1925, either by coincidence or for some unknown reason, the S&P 500 has appreciated significantly during years ending in "5".

Figure 2.



Source: Standard & Poor's.



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