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February Almanac: Generally a Tepid Month for Large Caps

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Even though February is right in the middle of the Best Six Months, its long-term track record, since 1950, is not all that stellar. February ranks no better than seventh and has posted paltry average gains except for the Russell 2000. Small cap stocks, benefiting from "January Effect" carry over; tend to outpace large cap stocks in February. The Russell 2000 index of small cap stocks turns in an average gain of 1.1% in February since 1979 — just the seventh best month for that benchmark.

The first trading day is bullish for DJIA, S&P 500 and NASDAQ. Average gains on the first day over the last 21-year period are right around 0.5%. Strength then tends to fade after that until the stronger eighth, ninth and eleventh trading days.

Presidents' Day is the lone holiday that exhibits weakness the day before and after (*Stock Trader's Almanac 2019*, page 88). The Friday before this mid-winter three-day break can be treacherous and average declines persist for three trading days after the holiday going back to 1980.

In pre-election years, February's performance generally improves with average returns all turning positive. NASDAQ performs best, gaining an average 2.8% in pre-election-year Februarys since 1971. Russell 2000 is second best, averaging gains of 2.5% since 1979. DJIA and S&P 500, the large-cap indices, tend to lag with average advances of around 1.0%.

Pre-Election Year February since 1950

	Rank[1]	Avg %	Up	Down
DJIA	5	1.2	11	6
S&P 500	6	1.1	11	6
NASDAQ*	5	2.8	9	3

[1] *Based upon the average historical monthly performance of the indices in comparison to other months of the year.*
** Since 1971*

February Vital Stats (1950-2018)

	DJIA		S&P 500		NASDAQ	
Rank[2]	8		9		7	
# Up	41		38		26	
# Down	28		31		22	
Average %	0.2		0.0		0.7	
4-Year Presidential Election Cycle Performance by %						
Post-Election	–1.1		–1.5		–3.3	
Mid-Term	0.7		0.5		0.7	
Pre-Election	1.2		1.1		2.8	
Election	–0.1		0.1		2.5	
Best & Worst February by %						
Best	1986	8.8	1986	7.1	2000	19.2
Worst	2009	–11.7	2009	–11.0	2001	–22.4
February Weeks by %						
Best	2/1/2008	4.4	2/6/2009	5.2	2/4/2000	9.2
Worst	2/20/2009	–6.2	2/20/2009	–6.9	2/9/2001	–7.1
February Days by %						
Best	2/24/2009	3.3	2/24/2009	4.0	2/11/1999	4.2
Worst	2/10/2009	–4.6	2/10/2009	–4.9	2/16/2001	–5.0
February 2018 Bullish Days: Data 1998-2018						
	1, 13, 15		1, 12, 13, 15		1, 13, 14, 15, 26	
February 2018 Bearish Days: Data 1998-2018						
	4, 28		28		5, 28	

[2] *Based upon the average historical monthly performance of the indices in comparison to other months of the year.*
[3] *Based on the S&P 500 Rising 60% or more of the time on a particular trading day.*
[4] *Based on the S&P 500 Falling 60% or more of the time on a particular trading day.*

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Inside

February Outlook: Market Internals Support Rally and Solid 2019 Gains

The Dow posted a 7.2% gain for the month of January — not only its best monthly gain in the past three months, but its best January since 1989. S&P 500 outpaced the Dow with a 7.9% gain for the month — its best January since 1987, scoring our third January Indicator Trifecta in a row. Further details on the bullish implications of the January Indicator Trifecta appear in the accompanying "January Barometer 2019 Official Results" article on page 4.

NASDAQ stocks racked up even better gains than Dow and S&P posting a 9.7% gain for January, its best January since 2001. However, the Russell 2000 Index of small cap stocks was the star of the month beating all the major U.S. indices with a whopping January gain of 11.2%, its best January since 1987. This is also reassuring as small caps have a long history of outperforming large caps in the month of January, known as the "January Effect." Small Caps outperforming in January suggest a healthy market exhibiting normal bullish behavior.

This phenomenon was first identified by the economist and investment banker Sidney Wachtel in his 1942 paper "Certain Observations on Seasonal Trends in Stock Prices" in the Journal of Business published by the University of Chicago press. Mr. Wachtel studied and tracked the seasonal movements of the stock market and is believed to have coined the term "January Effect."

Market internals suggest the market likely found at least an interim low on December 24, 2018 with the highest Weekly CBOE Equity Only Put/Call Ratio since January 2016 registering 0.92 on December 21, the Friday before the "Christmas Eve Crumble." This contrary sentiment indicator often spikes near the 1.00 level or higher at major lows as investors and traders buy protective puts en masse.

The NYSE Advance-Decline Line, New Highs and Lows provide additional support for the "Christmas Eve Crumble" low. Weekly Advancers, Decliners, New Highs and New Lows all hit rather extreme levels throughout December especially the week ending December 21. Market breath measured by NYSE Weekly Advancers and NYSE Weekly Decliners has been bullish since late December with Advancers outnumbering Decliners by wide margins in four of the last five weeks.

Weekly New Lows spiked to their highest number since November 2008 in mid-December at 1648. Weekly New Highs nearly fell into the single-digits then. Since then, Weekly New Lows have retreated significantly while Weekly New Highs expanded slightly. Major indexes are currently around the mid-point between their respective December lows and recent all-time highs so New Highs and New Lows are likely to remain somewhat subdued.

But keep the 2008-2009 bear market bottom in the back of your mind and remain on alert for a retest. Internals were weakest and at extreme levels in November 2008, yet the market made its ultimate low in March 2009 on stronger internals.

At this point the market appears to be tracking our Base and Best Case scenarios from our 2019 Annual Forecast last issue. Fed Chairman Jerome Powell is sounding much more dovish now and the FOMC left interest rates unchanged at its January 30 meeting. In addition to leaving interest rates unchanged, the market was pleased to hear the Fed express flexibility on its balance reduction strategy, patience with increasing rates further and data dependence. In his official remarks after the FOMC meeting Powell himself said, "The case for raising rates has weakened somewhat." Long time readers will remember we have been suggesting this for months.

The prospects for 2019 have improved dramatically

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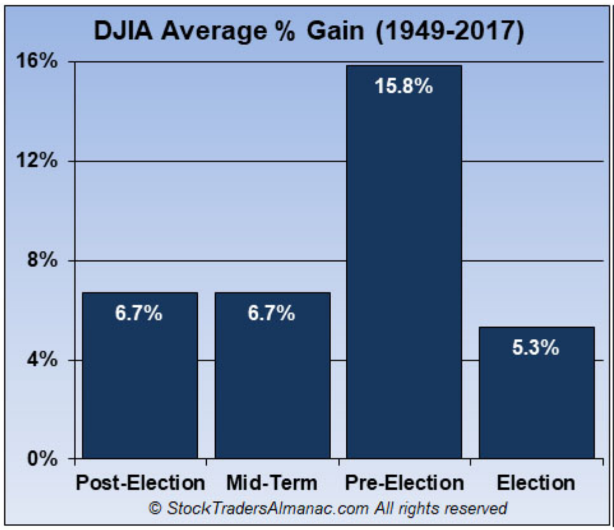
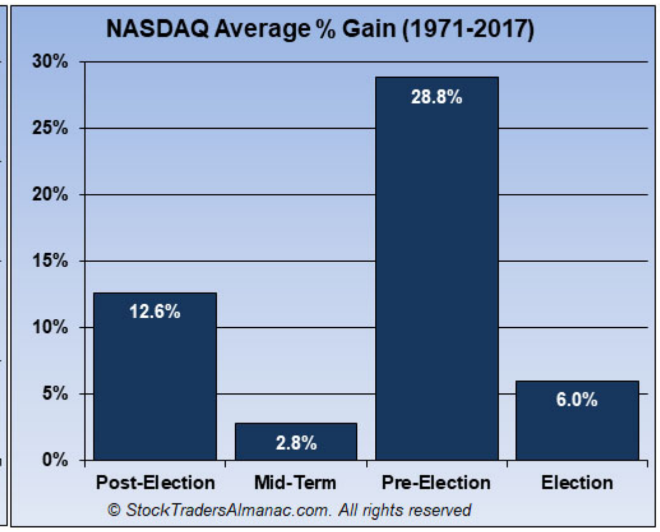
February Outlook: Market Internals Support Rally and Solid 2019 Gains

(continued from page 2)

over the past five weeks. The Fed has removed its blinders and backed off its unwavering stance to raise rates and reduce its balance on a rapid pace. President Trump has begun to tack to the center a hair with the Dems and the Chinese. If that continues and his adversaries reciprocate prospects for our Best Case scenario for 2019 improve.

Lastly, as we mentioned last issue, after the late Midterm Year correction, more normal Pre-Election Year gains are now likely in 2019. The Pre-Election Year or 3rd Year of the 4-Year Election Cycle is the best of the 4 by a wide margin. DJIA averages 15.8% since 1949 and NASDAQ Composite averages 28.8% since 1971.





Index Definitions: The S&P 500 Index is an unmanaged composite of 500 large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. The Dow Jones Industrial Average ('DJIA') is an unmanaged composite of 30 widely held stocks. The NASDAQ Index is an unmanaged composite of the common stocks and similar securities listed on the NASDAQ Stock Market. The Russell 2000 Index is an unmanaged composite of the bottom 2,000 stocks in the Russell 3000 Index. The Russell 3000 Index is an unmanaged composite of the 3,000 largest publicly held companies incorporated in America as measured by total market capitalization. The Russell 2000 index is widely used by professional investors as a performance benchmark for small-cap stocks. You cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. Past performance does not guarantee future results.

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January Barometer:
Trifecta Up 3-For-3 Bullish for 2019

S&P 500 finished the month strong with a 7.9% gain. This is the best S&P January since 1987. This is also the third January Trifecta in a row. Last year the S&P 500 crumbled in the fourth quarter under the weight of triple threats from a hawkish and confusing Fed, a newly divided Congress and the U.S. trade battle with China, finishing in the red. 2017's Trifecta was followed by a full-year gain of 19.4%, including a February-December gain of 17.3%. As you can see in the table below, the long term track record of the Trifecta is rather impressive, posting full-year gains in 27 of the 30 prior years with an average gain for the S&P 500 of 17.1%.

Devised by Yale Hirsch in 1972, the January Barometer has registered ten major errors since 1950 for an 85.5% accuracy ratio. This indicator adheres to propensity that as the S&P 500 goes in January, so goes the year. Of the ten major errors Vietnam affected 1966 and 1968. 1982 saw the start of a major bull market in August. Two January rate cuts and 9/11 affected 2001.The market in January 2003 was held down by the anticipation of military action in Iraq. The second worst bear market since 1900 ended in March of 2009 and Federal Reserve intervention influenced 2010 and 2014. In 2016, DJIA slipped into a mini-bear market in January. Including the eight flat years yields a .739 batting average.

Our January Indicator Trifecta combines the Santa Claus Rally, the First Five Days Early Warning System and our full-month January Barometer. The predicative power of the three is considerably greater than any of them alone; we have been rather impressed by its forecasting prowess. This is the 31st time since 1949 that all three January Indicators have been positive and the twelfth time (previous eleven times highlighted in grey in table at right) this has occurred in a pre-election year.

S&P 500 January Early Indicator Trifecta -- 3 Positive

New Year	SC Rally	FFD	JB	Feb	Last 11 Mon	Full Year
1950	1.3%	2.0%	1.7%	1.0%	19.7%	21.8%
1951	3.1%	2.3%	6.1%	0.6%	9.7%	16.5%
1952	1.4%	0.6%	1.6%	– 3.6%	10.1%	11.8%
1954	1.7%	0.5%	5.1%	0.3%	38.0%	45.0%
1958	3.5%	2.5%	4.3%	– 2.1%	32.4%	38.1%
1959	3.6%	0.3%	0.4%	– 0.02%	8.1%	8.5%
1961	1.7%	1.2%	6.3%	2.7%	15.8%	23.1%
1963	1.7%	2.6%	4.9%	– 2.9%	13.3%	18.9%
1964	2.3%	1.3%	2.7%	1.0%	10.0%	13.0%
1965	0.6%	0.7%	3.3%	– 0.1%	5.6%	9.1%
1966	0.1%	0.8%	0.5%	– 1.8%	– 13.5%	– 13.1%
1971	1.9%	0.0%	4.0%	0.9%	6.5%	10.8%
1972	1.3%	1.4%	1.8%	2.5%	13.6%	15.6%
1975	7.2%	2.2%	12.3%	6.0%	17.2%	31.5%
1976	4.3%	4.9%	11.8%	– 1.1%	6.5%	19.1%
1979	3.3%	2.8%	4.0%	– 3.7%	8.0%	12.3%
1983	1.2%	3.2%	3.3%	1.9%	13.5%	17.3%
1987	2.4%	6.2%	13.2%	3.7%	– 9.9%	2.0%
1989	0.9%	1.2%	7.1%	– 2.9%	18.8%	27.3%
1995	0.2%	0.3%	2.4%	3.6%	30.9%	34.1%
1996	1.8%	0.4%	3.3%	0.7%	16.5%	20.3%
1997	0.1%	1.0%	6.1%	0.6%	23.4%	31.0%
1999	1.3%	3.7%	4.1%	– 3.2%	14.8%	19.5%
2004	2.4%	1.8%	1.7%	1.2%	7.1%	9.0%
2006	0.4%	3.4%	2.5%	0.05%	10.8%	13.6%
2011	1.1%	1.1%	2.3%	3.2%	– 2.2%	– 0.003%
2012	1.9%	1.8%	4.2%	4.1%	8.7%	13.4%
2013	2.0%	2.2%	4.8%	1.1%	23.4%	29.6%
2017	0.4%	1.3%	1.8%	3.7%	17.3%	19.4%
2018	1.1%	2.8%	5.6%	– 3.9%	– 11.2%	– 6.2%
2019	*1.3%*	*2.7%*	*7.9%*	—	—	—
			Average:	**0.4%**	**12.1%**	**17.1%**
			# Up:	**19**	**26**	**27**
			#Down:	**11**	**4**	**3**

Source: StockTradersAlmanac.com. All rights reserved.

Market at a Glance

Seasonal: *Bullish.* February's long-term track record is mixed. In all years February ranks no better than seventh. However, in pre-election years, February's performance generally improves with average returns all turning positive. NASDAQ performs best, gaining an average 2.8% in pre-election-year Februarys since 1971. Russell 2000 is second best, averaging gains of 2.5% since 1979. DJIA and S&P 500, the large-cap indices, tend to lag with average advances of around 1.0%.

Psychological: *Neutral.* According to *Investor's Intelligence* Advisors Sentiment survey bulls are at 45.8%. Correction advisors are at 33.6% and Bearish advisors are 20.6%. At current levels, sentiment is essentially flat. Bearish and correction advisors combined outnumber bullish advisors, but not by a significant margin which leaves room for further gains. The pace of gains is likely to cool if bullish sentiment continues to rise.

"Patient is the new word from the Fed as it quickly changed course and established a much more dovish stance. What took so long is anyone's best guess. Inflation appears just about perfectly under control while growth is forecast to cool, not run away. A pause in tightening seems to align well with incoming data and that is likely what will happen this year which could prove to be bullish for stocks."

Fundamental: *Firm-ish.* Near-term outlook remains fair. Unemployment is low, the economy is still creating jobs each month, corporate earnings, although slowing, are forecast to continue growing and Atlanta Fed's *GDPNow* model is forecasting 2.7% growth for Q4 (official first reading for Q4 is still delayed). There has been an uptick in initial weekly jobless claims, but some of the increase is typical for January as part-time holiday help is let go. Housing and autos are a soft area of the U.S. economy. Stabilizing interest rates could bring some improvement to these markets. Warmer weather may also help.

Technical: *Recovering.* DJIA, S&P 500, NASDAQ and Russell 2000 have all rallied briskly after bottoming on the day before Christmas. Relative strength, Stochastic and MACD indicators are all positive, but stretched. An early December death-cross remains on the charts. Indexes are back above their respective 50-day moving averages but further gains are needed to reclaim their 200-day moving averages.

Monetary: *2.25-2.50%.* Patient is the new word from the Fed as it quickly changed course and established a much more dovish stance. What took so long is anyone's best guess. Inflation appears just about perfectly under control while growth is forecast to cool, not run away. A pause in tightening seems to align well with incoming data and that is likely what will happen this year which could prove to be bullish for stocks.

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