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February Almanac: Can be Challenging in Election Years

By Jeffrey A. Hirsch
Chief Market Strategist

Even though February is right in the middle of the Best Six Months, its long-term track record, since 1950, is rather tepid. February ranks no better than eighth in all years of the 4-year election cycle and has posted meager average gains. 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 1.2% in February since 1979 — just the sixth best month for that benchmark.

A strong February in 2000 boosts NASDAQ's ranking in election years. Otherwise, February's performance, compared to other presidential-election-year months, is mediocre at best with no large-cap index ranked better than ninth (DJIA and S&P 500 since 1950).

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 0.4%. Strength then tends to fade after that until the stronger sixth, eighth, ninth and eleventh trading days. Presidents' Day is the lone holiday that exhibits weakness the day before and after (*Stock Trader's Almanac 2020*, page 100). 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.

Election Year February since 1950

	Rank ¹	Avg %	Up	Down
DJIA	9	-0.1	10	7
S&P 500	9	0.1	9	8
NASDAQ*	2	2.5	7	5

¹ Based upon the average historical monthly performance of the indices in comparison to other months of the year.

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February Vital Stats (1950-2019)

	DJIA	S&P 500	NASDAQ
Rank ²	8	9	8
# Up	42	39	27
# Down	28	31	22
Average %	0.3	0.1	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	1.4	1.2	2.8
Election	-0.10	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 2019 Bullish Days: Data 1999-2019

	3, 13, 18	3, 10, 12, 13, 18	3, 10, 12-14 18, 25, 26
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February 2019 Bearish Days: Data 1999-2019

	4, 21, 28	21, 28	5, 21, 28
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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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February Outlook: Any Market Pause Likely Short-Lived

February is notoriously the weak link in “Best Six Months” so we expect the big run the market has been on since mid-October to at least take a breather in February as it often does to consolidate January gains and the gains over the first half of the “Best Six Months.” The market is also digesting a copious and volatile news flow, still elevated valuations and some consolidating technical readings.

Since our October 11, 2019 “Best Six/Eight Months” buy signal, as of January 31, 2020, DJIA is up 5.4%, S&P 500 has gained 8.6% and NASDAQ has tacked on an impressive 13.6%. The only thing that seems to have been able to rattle this bull market at all in 2020 has been the spread of China’s coronavirus and the quarantines and travel restrictions associated with it.

However, the market has proved to be resistant, suffering a 3.1% drop on the S&P 500 from the January 17 high to the low so far on Friday January 31. We examined how epidemics have impacted the market and found that historically the market has not been greatly affected by these outbreaks. Over the years the market has built up a rather strong immunity to viruses, outbreaks, epidemics and pandemics. While economies and communities around the world have

suffered from these outbreaks and the horrific human toll they have taken, the market has proven to be resilient.

HIV/AIDS continue to be an ongoing problem and is the longest running, widest spread and deadliest infectious human disease since the Spanish Flu that killed 50-100 million people worldwide from 1918-1920. HIV/AIDS is estimated to have taken the lives of some 30 million people. However, from the time these epidemics have become known to the public at large they have had little negative impact on the S&P 500 since 1950. As you can see in the table here the market was weaker during the outbreaks of the first three on the list, but there were arguably other factors that had a greater impact than these diseases.

The table below shows 14 previous such contagions since 1950 and how the market performed right after the disease was confirmed publically by health officials and where the market was 3, 6 and 12 months later. In 1957, during the Asian Flu pandemic the market was pushed into a bear market by a hawkish Fed that had been raising interest rates culminating in a bear market

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How Epidemics & Pandemics Since 1950 Impacted the Market (Based on S&P 500)												
Epidemic	Confirmed	S&P Close	Cases	Deaths	Subsequent Low	Days to Low	%Change	3-mo %Chg	6-mo %Chg	12-mo %Chg		
Asian Flu	Feb-1957	43.26	—	2 million	2/28/1957	43.26	0	0.0%	9.6%	4.5%	-5.6%	
Hong Kong Flu	7/13/1968	102.34	—	1 million	8/2/1968	96.63	20	-5.6%	0.8%	-1.9%	-6.4%	
HIV/AIDS	Jun-1981	131.21	—	30 million	7/22/1981	127.13	22	-3.1%	-11.5%	-6.6%	-16.5%	
Pneumonic plague	9/21/1994	461.46	693	56	12/8/1994	445.45	78	-3.5%	-0.4%	7.3%	26.3%	
SARS	2/10/2003	835.97	8,098	775	3/11/2003	800.73	29	-4.2%	13.1%	17.3%	37.0%	
Avian flu	4/3/2006	1297.81	701	407	6/13/2006	1223.69	71	-5.7%	-1.4%	2.8%	10.8%	
Dengue Fever	9/12/2006	1313.11	5,544	>90	9/12/2006	1313.11	0	0.0%	7.5%	7.1%	12.1%	
Swine flu	4/25/2009	866.23	—	203,000	4/28/2009	855.16	3	-1.3%	13.0%	24.6%	40.5%	
Cholera	10/21/2010	1180.26	>800,000	10,075	11/16/2010	1178.34	26	-0.2%	8.7%	13.3%	4.9%	
MERS	2/21/2013	1502.42	1,227	449	2/25/2013	1487.85	4	-1.0%	11.1%	9.3%	22.2%	
Ebola	3/25/2014	1865.62	28,646	11,323	4/11/2014	1815.69	17	-2.7%	5.0%	5.4%	10.5%	
Measles/Rubeola	12/28/2014	2088.77	125	Nil	1/15/2015	1992.67	18	-4.6%	-1.3%	0.6%	-1.5%	
Zika	1/25/2016	1877.08	174,667	18	2/11/2016	1829.08	17	-2.6%	8.5%	15.5%	22.4%	
Measles/Rubeola	6/30/2019	2941.76	250,000	5,000	8/14/2019	2840.60	45	-3.4%	1.2%	9.8%	—	
Wuhan Coronavirus*	1/10/2020	3265.35	6,065	133	1/31/2020	3225.52	21	-1.2%	—	—	—	
							Average:	-2.7%	4.6%	7.8%	12.1%	
							Median:	-2.9%	6.3%	7.2%	10.8%	
							Max:	0.0%	13.1%	24.6%	40.5%	
							Min:	-5.7%	-11.5%	-6.6%	-16.5%	
							# Up/Flat:	2	10	12	9	
							# Down:	12	4	2	4	
							% Up:	14.3	71.4	85.7	64.3	

* As of the close 1/31/2020 not include in totals & averages

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February Outlook: Any Market Pause Likely Short-Lived

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bottom in October 1957. The downdraft surrounding the Hong Kong Flu in 1968 was likely caused more by heightened hostilities in the Vietnam War and the related protests and events in the USA that culminated in the bear market bottom on May 26, 1970.

When the HIV/AIDS epidemic became known in 1981 the market was suffering from the nasty double-dip recession from 1980-1982.

The Iraq War held the market down in early 2003 during the SARS outbreak. The sovereign debt crisis and the downgrade of US debt in 2011 likely hurt the market more than the horrendous Haitian Cholera outbreak. The Measles scare in the US in late 2014-early 2015 had little impact on the market, though we suffered a mini-bear in 2015-2016 due to the EU Sovereign Debt Crisis, Brexit fears and the Chinese bear market. So while the new Wuhan coronavirus is major health and economic concern, especially to the affected areas, if history is any guide, the market is not likely to suffer greatly from it.

In other news, stocks also appear to be immune to

presidential impeachment trials and Brexit. This likely has much to do with Fed and the Election Cycle. The Fed is still printing lots of money and they are likely to continue to do so for some time. At the last FOMC meeting they said they had plans to continue adding liquidity to the banking repo market through April. This is basically QE4 and we suspect it will continue well past April as banks continue to rely on the repo facility and have become accustomed to having it. An expanding Fed balance sheet is something that has been known to fuel bull markets.

“An expanding Fed balance sheet is something that has been known to fuel bull markets.”

In addition to this expanding Fed balance sheet the Trump administration appears to be engaging in some classic Election Year priming of the pump. Government spending has been increasing under President Trump and this massive deficit spending is running at a faster pace than last year. Federal spending for the first quarter of Fiscal 2020 ending December 2019 came in at \$1.163 trillion up from \$1.090 last year with a deficit for the quarter of \$357 billion vs. \$319 billion last year. Clearly the current administration is ramping up spending in its reelection year in typical incumbent fashion.

People

Management Team

Joseph B. Childrey,
Founder & CIO

Jeffrey A. Hirsch,
*Chief Market Strategist
Editor, Stock Trader's Almanac*

Independent Research Consultants

Allen Shepard, PhD,
Research Consultant

Sidney C. Hardee, CFA,
Research Consultant

Mary C. Gray,
COO

Christopher Mistal,
*Chief Compliance Officer
Director of Research*

Robert B. Ausdal, Jr., CFA,
Research Consultant

Contact

Probabilities Fund Management, LLC

A registered investment advisor.

200 Mamaroneck Ave, Suite 300
White Plains, NY 10601

Office: 800-519-0438

Email: info@probabilitiesfund.com

Website: www.probabilitiesfund.com



January Barometer: January Trifecta Spoiled by Coronavirus

The market decline on the last day of January spoiled what would have been the fourth consecutive January Trifecta. S&P 500 finished January down 0.2% and thus the January Barometer is negative.

Devised by Yale Hirsch in 1972, the January Barometer has registered ten major errors since 1950 for an 85.7% 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 an official Ned Davis bear market in January. Including the eight flat years yields a .743 batting average.

The near-term outlook for the market has diminished as every down January (page 22 *Stock Trader's Almanac 2020*) since 1950 was followed by a new or continuing bear market, a correction or a flat year. If the spread of the coronavirus is slowed or contained quickly, then the market could quickly regain footing and begin to recover.

This year's combination of a positive Santa Claus Rally and First Five Days with a full-month January loss has

only occurred eleven times (including this year) since 1950. In the previous ten occurrences S&P 500 was down six times in February with an average loss of 1.5%. However, over the remaining 11 months of the year, S&P 500 advanced 80% of the time with an average gain of 7.4%. Full-year performance was positive 70% of the time, but with an average gain of 2.9%.

Because we do not rely solely on a single indicator or pattern, DJIA's December closing low of 27502.81 is still a key level to be watched. Lacking the backup of other patterns and indicators, the last day of January reversal could have been entirely due to the coronavirus. Any developments over the coming days and the market's response will be indicative as to whether or not recent market weakness manifests into a correction or worse.

S&P 500 January Early Indicator Trifecta — Mixed						
New Year	SC Rally	FFD	JB	Feb	Last 11 Mon	Full Year
1968	0.3%	0.2%	-4.4%	-3.1%	12.6%	7.7%
1970	3.6%	0.7%	-7.6%	5.3%	8.4%	0.1%
1973	3.1%	1.5%	-1.7%	-3.7%	-15.9%	-17.4%
1984	2.1%	2.4%	-0.9%	-3.9%	2.3%	1.4%
1990	4.1%	0.1%	-6.9%	0.9%	0.3%	-6.6%
1992	5.7%	0.2%	-2.0%	1.0%	6.6%	4.5%
2002	1.8%	1.1%	-1.6%	-2.1%	-22.2%	-23.4%
2003	1.2%	3.4%	-2.7%	-1.7%	29.9%	26.4%
2009	7.4%	0.7%	-8.6%	-11.0%	35.0%	23.5%
2010	1.4%	2.7%	-3.7%	2.9%	17.1%	12.8%
2020	0.3%	0.7%	-0.2%			
Average:				-1.5%	7.4%	2.9%
# Up:				4	8	7
# Down:				6	2	3
* As of Close January 31, 2020				Source: StockTradersAlmanac.com. All rights reserved.		

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.



Market at a Glance

Seasonal: *Neutral.* Even though February is right in the middle of the Best Six Months, its long-term track record, since 1950, is rather tepid. February ranks no better than sixth and has posted meager average gains except for the Russell 2000. In election years, February's performance remains bland.

Fundamental: *Mixed.* Advance estimate for 2019-Q4 U.S. GDP was 2.1%. Full-year 2019 GDP was 2.3% compared to 2.9% in 2018. Growth has slowed and could still be slowing. Even though growth has slowed, employment remains solid with 145,000 net new jobs added in December and the unemployment rate is 3.5%. Analysts expect corporate earnings forecasts will improve in 2020, but upward revisions have been lacking as earnings season rolls along. The spread of China's coronavirus globally is a concern as the potential impacts to growth remain uncertain.

Technical: *Consolidating.* After a steady rise from early-October through mid-January, DJIA, S&P 500 and NASDAQ appear to be taking a breather. All three indexes logged new all-time highs during the run. The rapid spread of the coronavirus may

have triggered the pause and retreat, but key support at 50-day moving averages remains intact for S&P 500 and NASDAQ.

Monetary: *1.50-1.75%.* Rates are still low and are likely to remain low. QE4 or repo market support is now expected to continue through at least April 2020. Based upon the manner in which the repo market suddenly needed support last September, it would not be surprising to see support last beyond April of this year. Fed balance sheet expansion has historically boosted the stock market and it will likely have a similar effect now.

Psychological: *Fading.* According to [*Investor's Intelligence*](#) Advisors Sentiment survey Bullish advisors are at 52.8%. Correction advisors are at 28.3% and Bearish advisors are 18.9%. New all-time highs, bullish yearend seasonality and the holiday season typically cause high levels of bullish sentiment from now until well into the New Year. Just one week ago, in mid-January, bulls were at a high of 59.4%. This easing of bullish sentiment is positive and not unexpected as the market pauses to access the impacts of the coronavirus, valuations, and earnings.

“After a steady rise from early-October through mid-January, DJIA, S&P 500 and NASDAQ appear to be taking a breather... The rapid spread of the coronavirus may have triggered the pause and retreat, but key support at 50-day moving averages remains intact for S&P 500 and NASDAQ.”

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