SEASONAL STRATEGIST
MONTHLY STOCK MARKET UPDATES

PROBABILITIES FUND MANAGEMENT, LLC

Volume 6, Issue 5 Published by Probabilities Fund Management, LLC May 2020

May Almanac: Weaker in Election Years

By Jeffrey A. Hirsch, Chief Market Strategist

May officially marks the beginning of the "Worst Six Months" for the DJIA and S&P. To wit: "Sell in May and go away." Our "Best Six Months Switching Strategy," created in 1986, proves that there is merit to this old trader's tale. A hypothetical $10,000 investment in the DJIA compounded to a gain of $1,068,826 for November-April in 69 years compared to just $1,461 for May-October. The same hypothetical $10,000 investment in the S&P 500 compounded to $823,326 for November-April in 69 years compared to a gain of just $9,537 for May-October.

May has been a tricky month over the years, a well-deserved reputation following the May 6, 2010 "flash crash". It used to be part of what we called the "May/June disaster area." From 1965 to 1984 the S&P 500 was down during May fifteen out of twenty times. Then from 1985 through 1997 May was the best month, gaining ground every single year (13 straight gains) on the S&P, up 3.3% on average with the DJIA falling once and two NASDAQ losses.

In the years since 1997, May's performance has been erratic; DJIA up eleven times in the past twenty-two years (three of the years had gains in excess of 4%). NASDAQ suffered five May losses in a row from 1998-2001, down —11.9% in 2000, followed by twelve sizable gains in excess of 2.5% and five losses, the worst of which was 8.3% in 2010. Election Year Mays rank at or near the bottom, registering net losses on DJIA and S&P 500 (since 1952), and NASDAQ (since 1972).

The first two days of May trade higher frequently and the S&P 500 has been up 21 of the last 30 first trading days. A bout of weakness often appears on the third, fourth and around the fifteenth trading day for large cap stocks. Generally, the first half of the month is better than the second half. On Friday before Mother's Day the DJIA has gained ground seventeen of the last twenty-five years and on the Monday after the blue-chip average has risen in seventeen of those years.

Inside

Election Year May since 1950

	Rank[1]	Avg %	Up	Down
DJIA	11	–0.7	8	9
S&P 500	10	–0.1	12	5
NASDAQ*	8	–0.3	5	7

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

May Vital Stats (1950-2019)

	DJIA		S&P 500		NASDAQ	
Rank[2]	9		8		5	
# Up	37		41		30	
# Down	33		29		19	
Average %	–0.1		0.2		0.9	
4-Year Presidential Election Cycle Performance by %						
Post-Election	1.3		1.7		3.4	
Mid-Term	–0.6		–0.7		–0.7	
Pre-Election	–0.3		–0.2		1.1	
Election	–0.7		–0.1		–0.3	
Best & Worst May by %						
Best	1990	8.3	1990	9.2	1997	11.1
Worst	2010	–7.9	1962	–8.6	2000	–11.9
May Weeks by %						
Best	5/29/1970	5.8	5/2/1997	6.2	5/17/2002	8.8
Worst	5/25/1962	-6	5/25/1962	-6.8	5/7/2010	-8
May Days by %						
Best	5/27/1970	5.1	5/27/1970	5.0	5/30/2000	7.9
Worst	5/28/1962	–5.7	5/28/1962	–6.7	5/23/2000	–5.9
May 2020 Bullish Days: Data 1999-2019						
	1, 7, 8, 12, 28		1, 15, 28		1, 8, 18, 28	
May 2020 Bearish Days: Data 1999-2019						
	5, 6, 13, 20, 29		5, 13, 20		5, 20	

[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.*

May Outlook: Down Best Six Months Warning Sign

Despite the selloff on the last day of April, the Best Six Months ended on a positive note, registering the best month in decades and the best April since the Great Depression. We have been tracking our Seasonal Best Six Months MACD Sell Signal for DJIA and S&P 500 since April 1. The slower MACD Sell indicator turned positive March 26 and remains in an uptrend and has not issued a new sell signal yet. At this point it would still take a one-day drop of 10% to trigger.

The massive rally has surely been impressive and a welcome change from the carnage we experienced in February and March. April 2020 has been the best month since January 1987 for DJIA and S&P 500 and the best April since 1938. January 1987 was several months before the August top and October crash. April 1938 came right on the heels of the March 31, 1938 bear market low.

> ***"Comparing 2020 market action to these 22/14 years, suggests a choppy year ahead with the potential for several tests of the recent lows."***

But April's huge move was still not enough to put the Best Six Months (November-April) in the black and that concerns us. DJIA was down 10.0% for this Best Six Months period and S&P 500 lost 4.1%. When the market is down during the "Best Six Months" it's an indication that there are more powerful forces than seasonality at work and when the bullish season is over those forces may really have their say.

Here is the updated table of Down Best Six Month for DJIA since 1950. Clearly, the market performed poorly in most of these years after a down BSM, except for 2009 and 1982. Following the first back-to-back down Best Six Months since 1973-1974, the market hit a secular bear market low in March 2009. The market made a similar secular bear market bottom in August 1982 that began in 1966 and this came after the infamous 1980s double dip recession. Our concern here is that this time around we've only just begun.

Other seasonal indicators are also flashing the caution sign. We have updated the composite graph of the seasonal pattern for the 22 years since 1950 (NASDAQ 14 years since 1971) when both the January Barometer as measured by the S&P 500 were down and the Dow closed below its previous December closing low in the first quarter.

Comparing 2020 market action to these 22/14 years in the graph on page 3, suggests a choppy year ahead with the potential for several tests of the recent lows. You can see now how market action in 2020 has reverted to the mean of this pattern, suggesting that we are in for some tough sledding in the market this year with quite a bit of chop, sideways action through the Worst Six Months (May-October) and some likely retests of the March lows.

However, we expect those lows to hold. Initial Weekly Jobless Claims have reached incredulous levels, levels never seen before since this indicator began in 1967. The number of people filing for unemployment has surpassed anything we have seen and already dwarfed the 2007-2009 Great

(continued on page 3)

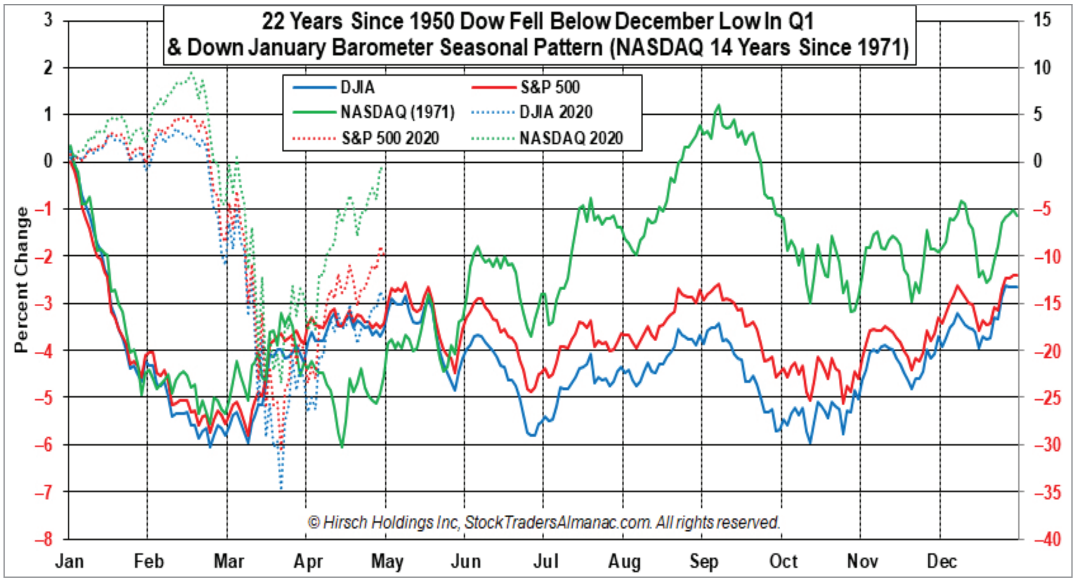
Down DJIA Best Six Months

Year BSM Ended	Previous Worst 6 Mos	Down Best 6 Mos	Following Worst 6 Mos	Bear Market Low	Days to Bear Market Low	BSM End To Bear Low
1952*	1.2%	– 1.8%	4.5%	9/14/1953	502	– 0.8%
1960	3.7%	– 6.9%	– 3.5%	10/25/1960	178	– 5.9%
1962	3.7%	– 5.5%	– 11.4%	6/26/1962	57	– 19.5%
1966	4.2%	– 2.8%	– 13.6%	10/7/1966	160	– 20.3%
1969	4.4%	– 0.2%	– 9.9%	5/26/1970	391	– 33.6%
1970	– 9.9%	– 14.0%	2.7%	*5/26/1970*	26	– 14.3%
1973	0.1%	– 3.6%	3.8%	12/6/1974	585	– 37.3%
1974	3.8%	– 12.5%	– 20.5%	*12/6/1974*	220	– 31.0%
1977	– 3.2%	– 3.9%	– 11.7%	2/28/1978	304	– 19.9%
1982	– 14.6%	– 0.5%	16.9%	8/12/1982	104	– 8.4%
1984	– 0.1%	– 4.4%	3.1%	7/24/1984	85	– 7.2%
2001	2.2%	– 2.2%	– 15.5%	9/21/2001	144	– 23.3%
2008	6.6%	– 8.0%	– 27.3%	3/9/2009	313	– 48.9%
2009	– 27.3%	– 12.4%	18.9%	3/9/2009	*DJIA Rallied 24.8% 3/9-4/30/2009*	
*2020***	*1.7%*	*– 10.0%*	—	*3/23/2020*	*DJIA Rallied 30.9% 3/23-4/30/20*	
		Average:	**– 4.5%**		**219**	**– 20.8%**
		Median:	**– 6.7%**		**169**	**– 19.9%**
		# Up:	**6**			**1**
		#Down:	**8**			**13**

** DJIA rallied 14% 4/30/1952 to 1/5/1953 top ** At press time, DJIA rallied 30.9% 3/23/2020 to 4/30/2020*

May Outlook: Down Best Six Months Warning Sign

(continued from page 2)



Down January Barometer/DJIA December Closing Low breach suggests we are not completely out of the woods yet. Even if March 23 turns out to be the ultimate low (and it does look like it) that does not mean the next six months or more are going to be pure rally to new highs. In fact new highs are not likely for quite some time and we will likely retest the lows.

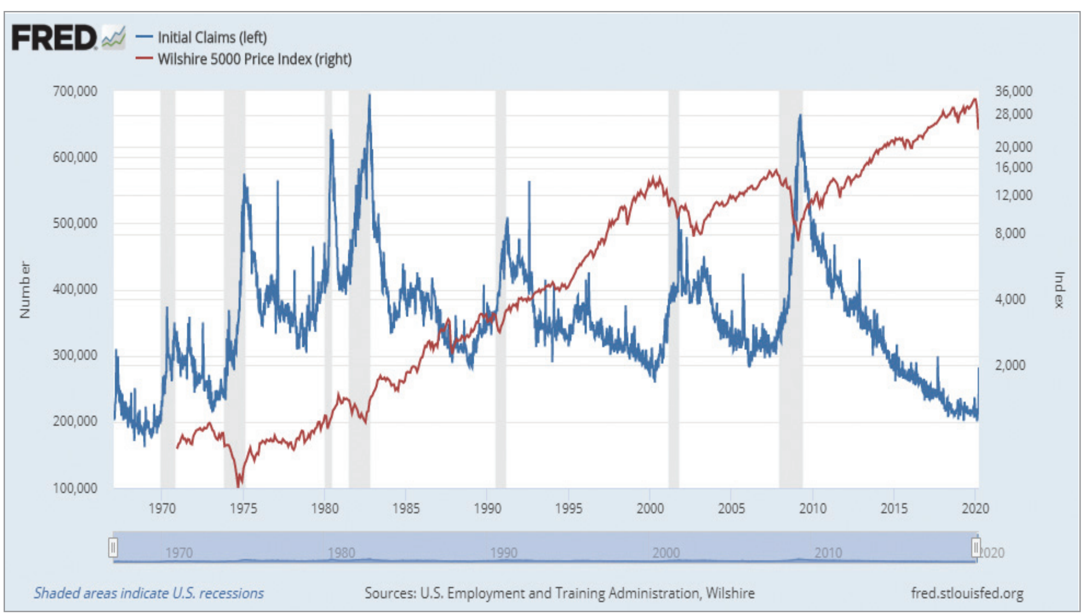
Though recession is not yet confirmed, it is likely a foregone conclusion. We have not yet seen the impact in the economic data. It is just starting to come in. 2020 Q1 Advance GDP came in at — 4.8%. This is only half the 2008-2009 low and this is just the beginning. Jobless claims the past six weeks are more than triple the job losses in the Great Recession.

How long will Vegas Casinos remain closed? How long will arenas and stadiums be empty? No one knows. There are some promising vaccines and treatments in the works and states are beginning to reopen, but there is no way of knowing when our lives and economy will return to some semblance of normal. So our outlook remains cautious for the Worst Six Months.

Recession. But, the trend is improving and this is one metric we have always found useful in identifying bear market lows. If the trend continues, Initial Claims appear to have peaked already.

In the chart bottom right, we have omitted Initial Claims of 3.3 million, 6.9 million, 6.6 million, 5.2 million, 4.4 million and 3.8 million the past six weeks as they would literally be off the chart. Also we have plotted the Wilshire 5000 on a logarithmic scale so that the highs and lows of the past would be discernible. All the bear market lows associated with a recession line up quite well with the spike peaks of Weekly Initial Jobless Claims.

Bear markets like 1987, which was a computer driven crash, were not accompanied by recession or an increase in Jobless Claims. But all the big bear market lows of 1970, 1974, 1982, 1990, 2001 and 2009 were marked by the peak of Jobless Claims. So keep your eye on Jobless Claims for continuing confirmation that the low is in.



It sure feels like the bottom is in, but the bad Best Six Months and the

Market at a Glance

Seasonal: *Neutral.* May is the first month of DJIA and S&P 500 "Worst Six Months. Our Seasonal MACD Sell signal has not triggered yet suggesting the rally could continue in the near-term. The history of "Worst Six Months" after a bad "Best Months" is not encouraging. This year's negative January Barometer and breached December DJIA low, point to possible retest of lows and choppy, volatile trading could occur during the upcoming "Worst Months."

Fundamental: *Ambiguous.* Despite the market's recovery rally, uncertainty remains elevated. Social distancing does appear to have slowed the spread of the coronavirus and the focus has shifted to crafting a plan for returning to "normal." Economic data, from early in the shutdown is already horrendous while the nearest data point to giving a real-time read on the U.S. economy, unemployment claims are astronomically high with over 30 million people filing already. It seems increasingly likely that the path back to a fully functioning economy may take much longer than it will take to draft re-opening plans.

Technical: *Overextended?* Unprecedented times call for unprecedented action by the Fed and government at all levels which appears to be supporting an unprecedented market rally. NASDAQ held up best in February and March and is nearly back to breakeven for the year. DJIA and S&P 500 experienced deeper retreats but have also enjoyed a robust recovery rally so far. NASDAQ has rebounded back above its 50- and 200-day moving averages while DJIA and S&P 500 have reclaimed their respective 50-day moving averages. Technical indicators are getting stretched to the upside and at some point, a pause and/or pullback is likely.

> ***"History of "Worst Six Months" after a bad "Best Months" is not encouraging. This year's negative January Barometer and breached December DJIA low, point to possible retest of lows and choppy, volatile trading could occur during the upcoming "Worst Months."***

Monetary: *0 – 0.25%.* The Fed is "all in" and further confirmed its commitment to use "its full range of tools to support the U.S. economy" after its scheduled meeting this week. Trillions have been pledged and are being spent to support the economy. Will this be sufficient? Only time will tell, and history suggests the Fed is probably not done yet.

Psychological: *Improving.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors are up to 46.6%. Correction advisors have edged lower and stand at 24.3% while Bearish advisors have slipped to 29.1%. The improvement is sentiment is likely tied to the rebound in the market along with looking beyond the next couple of quarters of data and into next year and beyond, where hopefully the pandemic will be over, and economies will be back to "normal."

People

Management Team

Joseph B. Childrey, *Founder & CIO*

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

Mary C. Gray, *Marketing Director*

Christopher Mistal, *Chief Compliance Officer*
Director of Research

Independent Research Consultants

Allen Shepard, PhD, *Research Consultant*

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

Sidney C. Hardee, 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

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. The Wilshire 5000 is a market-capitalization-weighted index of the market value of all US-stocks actively traded in the United States. As of December 31, 2019, the index contained only 3,473 components. The index is intended to measure the performance of most publicly traded companies headquartered in the United States, with readily available price data. Past performance does not guarantee future results.

More Information

For more information about our strategies, products and services, including updated fact sheets, performance summary reports and prospectuses, visit our website: **http://www.probabilitiesfund.com** or call Advisor Services today at **(800) 519-0438**.