SEASONAL STRATEGIST
MONTHLY STOCK MARKET UPDATES

PROBABILITIES FUND MANAGEMENT, LLC

Volume 7, Issue 1 | Published by Probabilities Fund Management, LLC | January 2021

January Almanac: An Indicator Trifecta Historically Bullish

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January has quite a reputation on Wall Street as an influx of cash from year end bonuses and annual allocations has historically propelled stocks higher. January ranks #1 for NASDAQ (since 1971), but fifth on the S&P 500 and sixth for DJIA since 1950. January is the last month of the best three-month span and holds a full docket of indicators and seasonalities.

DJIA and S&P rankings did slip from 2000 to 2016 as both indices suffered losses in ten of those seventeen Januarys with three in a row, 2008, 2009 and 2010 and then again in 2014 to 2016. January 2009 has the dubious honor of being the worst January on record for DJIA (-8.8%) and S&P 500 (-8.6%) since 1901 and 1931 respectively. The early stages of the Covid-19 pandemic mostly spoiled January in 2020 as DJIA, S&P 500, and Russell 2000 all suffered declines. Only NASDAQ was positive.

In post-election years, Januarys have been modestly weaker. DJIA and S&P 500 slip to number #7 and #6 respectively but do maintain positive average performance. NASDAQ holds the outright best ranking of the five at 5th place, but the frequency of gains has historically been mixed. DJIA, S&P 500 and NASDAQ have all advanced in seven of the last nine post-election year Januarys. The two down post-election years since 1985 were 2005 and 2009.

On pages 110 and 112 of the *Stock Trader's Almanac 2021* we illustrate that the January Effect, where small caps begin to outperform large caps, actually has started in mid-December. Early signs of the January Effect can be seen when comparing the Russell 2000 index of small cap stocks to the S&P 500 since December 15. Historically, the majority of small-cap outperformance is normally done by mid-February, but strength can last until mid-May when indices typically reach a seasonal high.

The first indicator to register a reading in January is our *Santa Claus Rally*. The seven-trading day period begins on the open on December 24 and ends with the close of trading on January 5. Normally, the S&P 500 posts an average gain

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Post-Election Year January since 1950

	Rank[1]	Avg %	Up	Down
DJIA	7	0.6	10	7
S&P 500	6	0.8	9	8
NASDAQ*	5	2.3	7	5

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

** Since 1971*

January Vital Stats (1950-2019)

	DJIA	S&P 500	NASDAQ
Rank[2]	5	5	1
# Up	45	43	33
# Down	26	28	17
Average %	1.0	1.1	2.8
4-Year Presidential Election Cycle Performance by %			
Post-Election	0.6	0.8	2.3
Mid-Term	–0.5	–0.7	0.0
Pre-Election	3.9	4.1	6.8
Election	–0.1	0.1	1.70
Best & Worst January by %			
Best	1976 14.4	1987 13.2	1975 16.6
Worst	2009 –8.8	2009 –8.6	2008 –9.9
January Weeks by %			
Best	1/9/1976 6.1	1/2/2009 6.8	1/12/2001 9.1
Worst	1/8/2016 -6.2	1/8/2016 -6	1/28/2000 -8.2
January Days by %			
Best	1/17/1991 4.6	1/3/2001 5.0	1/3/2001 14.2
Worst	1/8/1988 –6.9	1/8/1988 –6.8	1/2/2001 –7.2
January 2020 Bullish Days: Data 1999-2019			
	4, 25, 26	6, 11, 12, 19, 25	4, 8, 11, 12 19, 26
January 2020 Bearish Days: Data 1999-2019			
	8, 22	None	None

[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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of 1.3%. The failure of stocks to rally during this time has tended to precede bear markets or times when stocks could be purchased at lower prices later in the year.

On January 8, our First Five Days "Early Warning" System will be in. In post-presidential election years this indicator has a solid record. In the last 17 post-presidential election years 13 full years followed the direction of the First Five Days. The full-month January Barometer has a slightly better record in post-presidential election years with 14 of the last 17 full years following January's direction.

Our flagship indicator, the January Barometer created by Yale Hirsch in 1972, simply states that as the S&P goes in January so goes the year. It came into effect in 1934 after the Twentieth Amendment moved the date that new Congresses convene to the first week of January and Presidential inaugurations to January 20.

The long-term record has been stupendous, an 85.7% accuracy rate, with only ten major errors since 1950. Major errors occurred in the secular bear market years of 1966, 1968, 1982, 2001, 2003, 2009, 2010 and 2014 and again in 2016 as a mini bear came to an end. The tenth major and most recent error was in 2018 as a hawkish Fed continued to hike rates even as economic growth slowed and longer-term interest rates fell. The market's position on the last trading day of January will give us a better read on the year to come. When all three of these indicators are in agreement it has been prudent to heed their call.

2021 Forecast: Year End Rally Continues, Seasonal Patterns Endure and 2021 Looks Like A Good Year

Global pandemic was certainly not in our forecast last year and neither was the economic shutdown that came with it. Covid-19 has dramatically changed the world, the economy and the market forever. Some industries are still struggling, while others have adapted and changed. The "stay-at-home" economy stocks, technology in general and biotech industries are having a major impact that has been keeping the economy humming along and the market rallying to new highs.

Our outlook is bullish for next year. Covid cases, deaths and hospitalizations are elevated and on the rise, but vaccines are rolling out and much of the economy has learned how to adjust and deal with the restrictions and new socially distant mores. Our big concern is the struggling industries and their workers that are not finding new jobs.

The travel, leisure, hospitality, restaurant and similar service industries are in dire straits. Vast numbers of restaurants and small businesses have closed or gone out of business due to Covid and the level of Jobless Claims and the recent uptick in early December are emblematic of the economy's struggles.

The chart at right, tells quite a dramatic story. Using the most excellent St. Louis Fed's FRED database we have charted Initial Weekly Jobless Claims along with the Wilshire 5000 overlaid with the NBER (National Bureau of Economic Research) recession bars. The spike in Claims to nearly 7 million on the right side of the chart when the world shut down in March is astonishing and miles above any previous high. Claims have come down but are still at pre-Covid record levels and this December uptick is concerning. We will need to see major improvement on the jobs front for our Best Case scenario for 2021 to pan out.

Next year is also a post-election year with a new president from a new party. Historically, post-election years have not been great for the market as presidents, new or reelected,

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2021 Forecast

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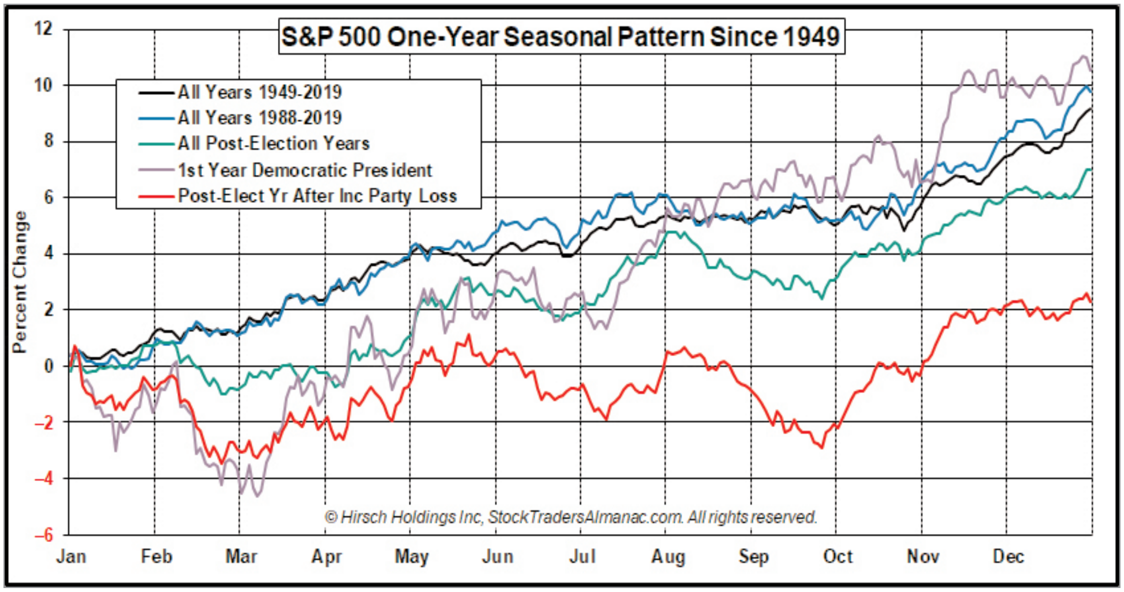
make changes early in the term and try to push through the their most disruptive policy initiatives. But post-election years have improved in recent years. Perhaps recent election-year weakness, which can be attributed to more contentious, campaigning of late, has benefitted post-election years.



Control of Congress also hangs in the balance with the outcome of the Georgia Senate runoff on January 5, 2021. If the republicans win they secure control of the Senate, making it harder for President-elect Joe Biden to get through legislation. If the democrats win both seats in Georgia with the two independents that caucus with democrats it will be 50/50 in the Senate making it easier for Biden to implement more new policy and break the gridlock that often limits sweeping change.

Post-election years after an incumbent party loses the White House have been rather weak, up only 2.3% on average for the S&P 500 since 1949. This is represented in the red line in the chart below of the S&P 500 One-Year Seasonal Pattern Since 1949. This chart also shows the historical seasonal patterns for all years since 1949 and since 1988 as well as all post-election years and the 1st Year of a new democratic president.

Admittedly, there are limited data points for first year democrats with only four. But change in party with a new, first year democratic president came with democratic control of Congress and significantly higher performance for the S&P 500, averaging 10.6% with a median gain of 15.1%. 1977, Jimmy Carter's first year, was the only negative one down -11.5%. S&P 500 was up 23.1% in 1961, Kennedy's first year; 7.1% in 1993, Clinton's first year and 23.5% in 2009, Obama's first year.

Four Horseman of the Economy

The Dow is our lead horsemen and it along with the rest of the stock market has been logging new highs and tracking seasonal patterns since September. We expect this trend to continue unless the Covid pandemic spirals out of control, the vaccines prove ineffective and/or earnings outlooks deteriorate.

Consumer confidence is still rather glum as folks struggle to navigate and survive the economic disruptions from the pandemic and related restrictions. Travel and leisure struggles reflect this lack of confidence. The Fed can't get much easier so a retreat in the spread of Covid, vaccine success, a new stimulus package and some light at the end of the tunnel that there will be a resumption of a more normal economy will do much to improve consumers' outlook.

The Unemployment Rate is still elevated and likely to remain so as jobless claims are still historically high and on the rise. Some vision of a full economic reopening, where folks can get back to work in the hospitality business, travel and freely go out will help companies start to rehire. But it will likely be some time before workers whose businesses closed find new jobs or new fields.

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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.

Moving Average Convergence Divergence (MACD): A trend-following momentum indicator that shows the relationship between two moving averages of prices.

Santa Claus Rally: Discovered and named by Yale Hirsch in 1972 and published in the 1*973 Stock Trader's Almanac*. Santa Claus tends to come to Wall Street nearly every year, bringing a short, sweet, respectable rally within the last five days of the year and the first two in January. This rally has been averaged 1.3% S&P 500 gain since 1969. Santa's failure to show tends to precede bear markets, or times stocks could be purchased later in the year at much lower prices.

Triple Witch Week: Is the week containing the third Friday in March, June, September and December when stock options, index options and index futures expire on Friday.

January Effect: Is the tendency of small-cap stocks to outperform large-cap stocks in January.

January Barometer: Devised by Yale Hirsch in 1972, and published in the *1973 Stock Trader's Almanac*, the January Barometer states that as the S&P 500 goes in January, so goes the year. This indicator has registered ten major errors since 1950 for an 85.7% accuracy ratio.

2021 Forecast

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Our inflation horseman as measured by our 6-month exponential moving average calculations on the CPI and PPI have been in retreat since before Covid and the PPI has gone deeper negative since last year. Pent up demand once Covid is in check and the economy reopens should help bring inflation out of the doldrums.

2021 Forecast

- **Worst Case** — DJIA & S&P 500 up 4-8%. NASDAQ up 6-10% — Covid-19 worsens; earnings outlook slips. Market correction with recovery by year end with modest single digit gains.
- **Base Case** — DJIA & S&P 500 up 8-12%. NASDAQ up 15-20% — Typical Post-Election year with a new Democrat in the White House.
- **Best Case** — DJIA & S&P 500 up 15-20%. NASDAQ up 22-27% — Covid-19 vaccine rolls out perfectly, additional fiscal stimulus, leisure, hospitality and travel surges, and unemployment dives.

Happy Holidays & Happy New Year, we wish you all a healthy and prosperous 2021!

Market at a Glance

Seasonal: *Bullish.* January is the third month of the Best Six/Eight, but it is the last of the Best-Three-Consecutive-month span. January is the top month for NASDAQ (since 1971) averaging 2.8%, but it has slipped to sixth for DJIA and fifth for S&P 500 since 1950. Post-election-year Januarys have been weaker (DJIA +0.6%, S&P 500 +0.8% NASDAQ +2.3%), but still positive. The Santa Claus Rally ends on January 5th and the First Five Days early-warning system ends on the 8th. Both indicators provide an early indication of what to expect in 2021. We will wait until the official results of the January Barometer on January 29 are in before tweaking our Annual Forecast.

Fundamental: *Still Mixed.* Limited quantities of vaccines are shipping, but it will take time to reach all that desire one. Covid-19 continues to spread and weekly initial jobless claims have been creeping higher. Many areas of the economy have shown improvement however, the lofty number of weekly claims suggests there could be a cap on how far and how long positive trends can continue.

Technical: *Breaking out.* DJIA, S&P 500 NASDAQ and Russell 2000 all broke out to new all-time closing highs in December. Strength across all four indexes is bullish as it shows broad participation and support from stocks. Barring an exogenous event, the typical year end rally most likely has begun.

Monetary: *0 – 0.25%.* During the last Fed meeting of the year, the Fed once again confirmed its commitment to doing essentially whatever it takes, within their powers, to support the economy. Low rates, yes, more QE at a pace of $120 billion a month, yes and they stand ready to respond further if new risks emerge. Historically, an accommodative Fed has benefited the stock market and this time looks no different.

Psychological: *Nearly Euphoric.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors stand at 62.4%. Correction advisors stand at 20.8% while Bearish advisors are at 16.8%. However, Bullish advisors actually declined fractionally from their previous peak of 64.7% from the beginning of December. This is a high level, but it is lower than the January 2018 peak of 66.7% Bullish advisors. Bullish sentiment is clearly lofty, but not without reason. It is the holiday season and Covid-19 vaccines are shipping.

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