SEASONAL STRATEGIST
MONTHLY STOCK MARKET UPDATES

PROBABILITIES
FUND MANAGEMENT, LLC

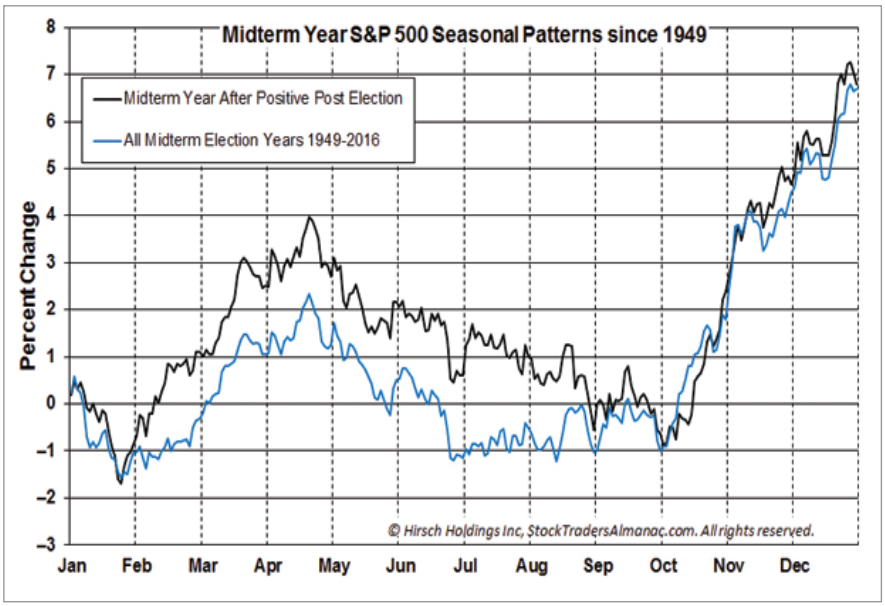
Volume 4, Issue 1 | Published by Probabilities Fund Management, LLC | January 2018

2018 Forecast: Healthy Economy, Strong Market & New Tax Law Bullish – DJIA 29,000 in the Cards

By Jeffrey A. Hirsch
Chief Market Strategist

We've been digging and searching for indications that this market is running out of steam and we are headed for some sort of major correction, sizeable pullback or a bear market in 2018, but we have been hard-pressed to find any such data. Sure valuations and sentiment are rather high, but we all know that situation can go on for longer than most bearish investors can stay short or on the sidelines. A growing economy with increasing corporate earnings can bring price/earnings valuations down as well as a price decline.

We do expect a mild soft patch in 2018 during the Worst Six Months (May-October) as is often the case. You might think that such a banner market rally in the usually weak post-election year would "steal" gains from the midterm gains. But that has not really been the case historically. As you can see in the chart below the black line representing midterm years that followed positive post-election years runs extremely close to the blue line of all midterm years. There are other factors at play that have led us to believe 2018 is likely to be another strong one.



Inside

Secular Bull Underway

For one thing it is becoming apparent that my 2010 Super Boom Forecast for the Dow Jones Industrial Average (DJIA) to reach 38,820 by the year 2025 is on track. I first released that forecast in my *Almanac Newsletter* in May 2010 (starts on page 10 of the June 2010 newsletter) with DJIA around 10,000. I last updated this forecast in March of 2017. I now believe that the February 2016 bear market low was the end of the last secular bear and the beginning of the new secular bull market.

If you refer to the Bull and Bear Market stats in your handy *Stock Trader's Almanac 2018* on pages 131-132 you will see that the average bull market gain for DJIA is 85.6%, for the S&P 500 it's 81.5% and for the NASDAQ Composite it is 129.7%. If historical trends repeat, that would equate to about DJIA 29,000, S&P 500 3,300 and NASDAQ 9,800. From the close of the market on December 29, 2017 that would be equivalent to a 17.3% move for DJIA, 23.4% for S&P and 42.0% for NASDAQ.

(continued on page 2)

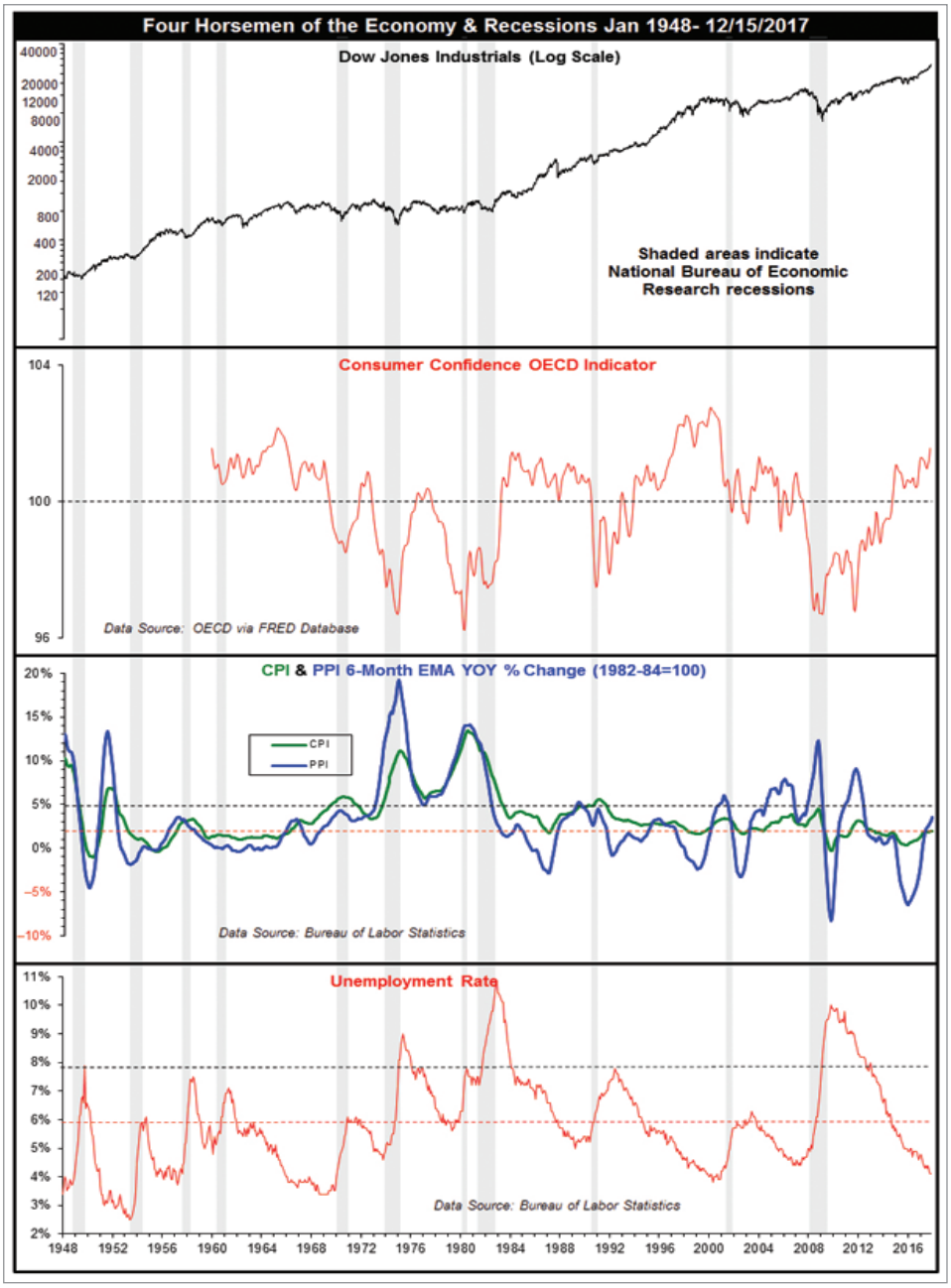
Now, you might be concerned that it's been a long time since we have had a 10% correction and we are way overdue. It is getting close to two years since the last 10% drop (the aforementioned February 2016 bear market low). We are not saying that we will not have a 10% correction in 2018; we may very well have one in the worst six months of 2018, but just because we are over the average timespan between 10% corrections in bull markets does not mean we are overdue for one. The gap from 2011 to 2015 was 1326 days for example. See the rest in our study from August.

Four Horseman of the Economy

The big horseman of the economy is the Dow. While it may be an antiquated metric to some, it is the oldest continuously tracked market barometer in the book. And it arguably contains 30 of the most influential stocks in the world. Aside from a few blips and minor bears it has been going strong since March 2009. Gains tend to beget gains.

Consumer confidence has been on the rise for the past six years and continues to trend higher, suggesting consumers and regular folks are not doing too badly. The unemployment rate continues to fall and sits at 4.1%. And the labor participation rate has begun to rise as workers are coming back into the labor force. When people rejoin the workforce and unemployment stays low, it suggests a resilient economy on the verge of accelerating.

Inflation as measured by my 6-month exponential moving average calculation on the CPI and PPI is also looking positive just about hitting that sweet spot of 2-5%. CPI is just a hair shy at 1.98%. A little more growth could lead to some wage growth and a healthy rise in inflation, allowing the Fed to continue to normalize rates.



2018 Forecast

Based on everything I have analyzed, including the risks of high market valuations, rocky geopolitics, a new Federal Reserve Chair and the history of midterm-election-year volatility I have laid out three scenarios for 2018:

- **Worst Case**. Full blown midterm bear market caused by North Korea actually setting off a nuke, no positive impact from tax reform, or some other doomsday scenario.
- **Base Case**. Above average midterm year gains in the range of 8-15%, a mild worst six correction or pullback.
- **Best Case**. Everything pans out, tax reform juices corporate earnings, bonuses and paychecks grow, economy grows. DJIA 29,000, S&P 3,300, NASDAQ 9,800.

The midterm election outcome may matter less than many people think with this president. Even if the Democrats take back both houses of Congress President Trump is highly likely to veto any Democratic legislation that comes to his desk. The Dems are not likely to get a two-thirds veto override majority. The current Congress and President Trump have put the country on a new path with less regulation and lower taxes. This direction will remain in place until at least January 2021; the next regularly scheduled Inauguration Day.

Then there is my January Indicator Trifecta which served us quite well this year. While post-election years are notoriously bearish, when all three January Indicators — the *Santa Claus Rally, First Five Days* and the full-month *January Barometer* — are all positive we hit the trifecta. Post-election years since 1949 average about 6.3%. When the January Indicator Trifecta is positive post-election years average 24.0%.

It is a similar case for the midterm year. Average gain since 1950 is 6.7%, but with a positive January Indicator Trifecta midterm years average 21.1% — all based on the S&P 500. So the forecast is out, but as always I reserve the right to make adjustments on the close of January 2018.

January Almanac: Results from Trio of Indicators Could Reshape 2018

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

In midterm years, January ranks near the bottom since 1950. Large-caps have been the worst with S&P 500 and Russell 1000 ranking #11 (second worst) and DJIA

Midterm Year January since 1950

	Rank	Avg %	Up	Down
DJIA	10	–0.9	8	9
S&P 500	11	–1.0	8	9
NASDAQ*	7	–0.7	5	6
Russell 1K**	11	–1.3	4	5
Russell 2K**	8	–0.9	3	6

** Since 1973, ** Since 1981*

People

Management Team

Joseph B. Childrey, *Founder & CIO*

Mary C. Gray, *COO*

Jonathan L. Chatfield, CFA, *Portfolio Manager & CCO*

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

Christopher Mistal, *Director of Research*

Independent Research Consultants

Allen Shepard, PhD, *Research Consultant*

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

Contact

Probabilities Fund Management, LLC
A registered investment advisor.

1665 Union Street, Suite A, San Diego, CA 92101
Office: 800-519-0438
Email: advisorservices@probabilitiesfund.com
Website: www.probabilitiesfund.com

#10. Technology and small-cap shares fare slightly better in the rankings, but average performance is still negative.

DJIA and S&P January rankings had slipped precipitously as the month has suffered some significant losses over the last 18 years. From 2000 to 2016 both indices declined 10 times; three in a row from 2008 to 2010 and again 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.

On pages 106 and 110 of the *Stock Trader's Almanac 2018* we illustrate that the January Effect, where small caps begin to outperform large caps, actually starts in mid-December. The majority of small-cap outperformance is normally done by mid-February, but strength can last until mid-May when most indices reach a seasonal high.

The first indicator to register a reading in January is the *Santa Claus Rally*. The seven-trading day period begins on the open on December 22 and ends with the close of trading on January 3. Normally, the S&P 500 posts an average gain of 1.3%. The failure of stocks to rally during this time tends to precede bear markets or times

Events Calendar

Probabilities Fund Management, LLC
invites you to join us at any of the following upcoming events:

Chief Market Strategist Jeffrey Hirsch
Advisor/Client Meetings
Dallas TX – January 23-27

Chief Market Strategist Jeffrey Hirsch
Dallas Chapter of the Market Technicians Association
Dallas TX – January 24

Chief Market Strategist Jeffrey Hirsch
DFW 4th Saturday Investors Group
Dallas TX – January 27

Founder & CIO Joseph B. Childrey
North Street Global
CAP-INTRO WEST
San Francisco – January 24-25

Chief Market Strategist Jeffrey Hirsch
Advisor/Client Meetings
Goldcoast, Suncoast & Greater Orlando Florida – February 6-10

Chief Market Strategist Jeffrey Hirsch
The MoneyShow Orlando
Orlando Florida – February 8-10

To Register Early For An Event or For More Information,
Call (800) 519-0438 or **Email advisorservices@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 s an unmanaged composite of the common stocks and similar securities listed on the NASDAQ stock market companies. The Russell 1000 is an unmanaged composite of the 1000 largest capitalization stocks. The Russell 2000 is an unmanaged composite of 2000 small-capitalization 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.

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 midterm election years, just 8 full years followed the direction of the First Five Days. The full-month January Barometer has a midterm-election-year record of 10 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 astounding, an 86.8% accuracy rate, with only nine major errors in 67 years. Major errors occurred in the secular bear market years of 1966, 1968, 1982, 2001, 2003, 2009, 2010, 2014 and 2016. The market's position on January 31 will give us a good read on the year to come. When all the *Santa Claus Rally*, the *First Five Days* and *January Barometer* are in agreement, it has been prudent to heed their call. This January Trifecta was absolutely correct in 2017 correctly predicting a full-year, 20-plus percent gain by S&P 500.

January (1950-2017)			
	DJIA	S&P 500	NASDAQ
Rank	6	6	1
# Up	43	41	30
# Down	25	27	17
Average %	0.9	1.0	2.6
4-Year Presidential Election Cycle Performance by %			
Post-Election	0.7	0.7	2.2
Mid-Term	-0.9	-1.0	-0.7
Pre-Election	3.7	3.9	6.6
Election	-0.01	0.2	1.7
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 -6.0	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 2018 Bullish Days: Data 1997-2017			
	2, 3, 25, 26	10, 17	2, 9, 10, 17, 26, 29
January 2018 Bearish Days: Data 1997-2017			
	8, 19, 22, 24	8	16, 19, 22

Market at a Glance

Psychological: *Frothy.* Bullish sentiment is running near multi-decade highs according to *Investor's Intelligence* Advisors Sentiment survey. It's the holidays, the market is rising and tax reform is on its way to the President's desk. Traders and investors should be in "good" spirits.

Fundamental: *Accelerating.* Fourth quarter U.S. GDP is currently forecast at 3.3% by the Atlanta Fed's *GDPNow* model and the labor market remains firm with 228,000 net new jobs added in November. These may not be the greatest numbers in history, but they are some of the best in many years. Now add on the potential positive impacts of tax reform and reduced regulation. There seems to be more than sufficient fuel to keep the bull market alive and well.

Technical: *Overbought.* With the exception of Russell 2000, Stochastic, relative strength and MACD indicators applied to DJIA, S&P 500 and NASDAQ are at or near overbought levels. Recently, similar situations were followed by brief periods of sideways (to slightly lower) trading before the next leg higher occurred. Considering the underlying momentum in the market, this will likely be the case this time around; any weakness could be considered an opportunity to add to existing long positions or to establish new positions.

Monetary: *1.25-1.50%.* Just as widely expected, the Fed did raise rates at this month's meeting. Even at the high end of the new range of Fed funds, the rate is still highly supportive of growth and continued firming of the labor market. The Fed's next meeting ends on January 31 and as of today, CME Group's *FedWatch Tool* is showing just a 2.1% probability of another rate increase in January.

Seasonal: *Bullish.* January is the third month of the Best Six/Eight, but it is the last of the Best Consecutive Three month span. January is the top month for NASDAQ (since 1971) averaging 2.5%, but it has slipped to sixth for DJIA and S&P 500 since 1950. Midterm January's have a troublesome record with average losses for DJIA, S&P 500, NASDAQ, Russell 1000 & 2000. The *Santa Claus Rally* ends on January 3rd and the *First Five Days "Early-Warning" System* ends on the 8th. Both indicators provide an early indication of what to expect in 2018. However, I will wait until the official results of the January Barometer on January 31 before tweaking my 2018 Annual Forecast.

"January is the third month of the Best Six/Eight, but it is the last of the Best Consecutive Three month span."

More Information

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

6103-NLD-1/24/2018