SEASONAL STRATEGIST
MONTHLY STOCK MARKET UPDATES

PROBABILITIES
FUND MANAGEMENT, LLC

Volume 4, Issue 2 | Published by Probabilities Fund Management, LLC | February 2018

February Outlook: Bullish 2018 Forecast on Track, January Trifecta In Play

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Incoming economic and corporate data readings along with the positive reception to the new tax law on Wall Street and in boardrooms across the country have conspired to keep my more bullish 2018 forecast scenarios from last month on track. Positive readings from the first two legs of my January Indicator Trifecta lend further support to our positive outlook for 2018. However, many have latched onto the notion that due to the fact that the market is off to its best start since 1987, something ominous is on the horizon. Just because the market is up the most this January since 1987, it does not mean we are due for a 1987-style crash.

Since December 31 the Dow Jones Industrial Average (DJIA) is up 7.7% in just four weeks and now just 9.0% away from the 29,000 level I said was in the cards for 2018 in my forecast. But we are still a far cry from the 13+% gains we had at this time in 1987 and for the full month of January 1987. In fact, the vast majority of big January gains were followed by great years. As you can see in the table below of the other Top 10 performing Januarys as measured by the S&P 500, six of those nine years posted solid double-digit gains.

Inside

So as we sit here in the midst of the Best Six Months following the positive vibrations of great Worst Six Months, improving fundamental data, upbeat corporate guidance, and technical market momentum gives us further conviction that our bullish outlook remains prudent for this year.

Midterm Februarys are more bullish than usual and March remains strong in midterm years as well. April, May and June are weaker in midterm years, so we suspect this

S&P 500 Performance

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Full-Year
1934	10.6	-3.7	-0.1	-2.7	-8.1	2.1	-11.5	5.4	-0.5	-3.2	8.3	-0.4	-5.9
1938	1.3	6.1	-25.0	14.1	-4.4	24.7	7.3	-2.7	1.5	7.6	-3.3	3.8	25.2
1946	7.0	-6.9	4.6	3.8	2.2	-3.9	-2.6	-7.3	-10.2	-0.8	-1.1	4.3	-11.9
1951	6.1	0.6	-1.8	4.8	-4.1	-2.6	6.9	3.9	-0.1	-1.4	-0.3	3.9	16.5
1967	7.8	0.2	3.9	4.2	-5.2	1.8	4.5	-1.2	3.3	-2.9	0.1	2.6	20.1
1976	11.8	-1.1	3.1	-1.1	-1.4	4.1	-0.8	-0.5	2.3	-2.2	-0.8	5.2	19.1
1985	7.4	0.9	-0.3	-0.5	5.4	1.2	-0.5	-1.2	-3.5	4.3	6.5	4.5	26.3
1987	13.2	3.7	2.6	-1.1	0.6	4.8	4.8	3.5	-2.4	-21.8	-8.5	7.3	2.0
1997	6.1	0.6	-4.3	5.8	5.9	4.3	7.8	-5.7	5.3	-3.4	4.5	1.6	31.0
Average:	**7.9**	**0.04**	**-1.9**	**3.0**	**-1.0**	**4.1**	**1.8**	**-0.6**	**-0.5**	**-2.6**	**0.6**	**3.6**	**13.6**
Median:	**7.4**	**0.6**	**-0.1**	**3.8**	**-1.4**	**2.1**	**4.5**	**-1.2**	**-0.1**	**-2.2**	**-0.3**	**3.9**	**19.1**

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rally to continue higher for a bit longer before we run into any meaningful pullback. While we are always on the lookout for cracks in the market's bullish veneer and prepared to make adjustments to our outlook should any breakdowns in the data suggest the party is over, we don't expect anything unfavorable until the end of the Best Six Months.

Comments and actions from CEOs have been optimistic, constructive and bullish on how the new tax legislation will fall nicely to their bottom lines. They have already been putting more money in the pockets of their employees and upping earnings outlooks. Some of the praise from bigtime, mainstream business moguls has been unexpectedly lavish.

Spending is up, earnings are forecasted to rise and the economy is gathering momentum. Most impressively the economy is growing more on its own two feet now, healthily digesting the interest rate tightening and the reduction in the Fed's massive balance sheet. Workers are coming back to the labor force, yet unemployment remains in check and historically low. A bit of healthy inflation is starting to perk up as well.

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There has been some concern expressed about high price-earnings (PE) valuations and excessive bullish sentiment. PEs can come down in one of two ways. Stock prices can come down or earnings can rise. From what we have been hearing from CEOs it sounds like they are expecting an increase in earnings. As for contrary bullish sentiment indicators, history has taught us that high bullish sentiment can stay high for quite a while and longer than most bears can stay short and it's only indicative when it takes a sharp turn lower.

There is also a great deal of cash on the sidelines. BlackRock CEO Larry Fink relates in his recent Davos interview (jump to the 4:30-5:30 minute), that as this large amount of cash comes back into this bull market it will provide more momentum. Finally, let's not forget that the eighth year of decades boasts the second best record next to 5th years in the past thirteen decades with an average 14.5% gain for DJIA, 2008 notwithstanding. So, while we remain rather bullish for the near term and 2018 as a whole, we do expect some mild pullback in the Worst Six Months and remain prudent and ready to make our regular adjustments based on our calendar rules and tactical market signals.

February Almanac: Big January Gains Correct or Consolidate in February

February tends to follow the current trend, though big January gains often correct or consolidate during the month of Valentines and Presidents as Wall Street evaluates and adjusts market outlooks based on January's performance. Since 1950, January S&P 500 gains of 2% or more corrected or consolidated in February 62.1% of the time. In the 20 years that the S&P 500 gained 4% or more in January, 65.0% of the time the S&P declined or finished flat (less than 1% gain) in February.

Since 1950, February is up only slightly more than half the time and up marginally on average.

DJIA and S&P 500 average gains of 1.0% (since 1950) while NASDAQ lags with average advance of 0.7% (since 1974).

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Midterm-Year February since 1950				
	Rank	Avg %	Up	Down
DJIA	6	1.0	12	5
S&P 500	5	0.7	10	7
NASDAQ*	4	1.0	6	5

** Since 1974*

The first trading day is bullish and it has traded higher in 19 of the past 26 years with an average S&P 500 gain of 0.43%. Strength then tends to fade after that until the stronger eighth, ninth and eleventh trading days. Expiration week has a spotty longer-term record, but the week after has a clear negative bias with average losses across the board over the past 28 years.

Presidents' Day is the lone holiday that exhibits weakness the day before and after (*Stock Trader's Almanac 2018*, page 88). The Friday before this mid-winter three-day break is exceptionally treacherous and average declines persist for three trading days after the holiday going back to 1980. More recently, since 2011, the day before and the day after Presidents' Day has been improving. S&P 500 has advanced six times in seven years on the day before and has been up on the day after for six straight years.

February (1950-2017)			
	DJIA	S&P 500	NASDAQ
Rank	8	9	8
# Up	41	38	26
# Down	27	30	21
Average %	0.3	0.1	0.7
4-Year Presidential Election Cycle Performance by %			
Post-Election	-1.1	-1.5	-3.3
Mid-Term	1	0.7	1
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 1997-2017			
	1, 13, 15	1, 12, 13, 15	1, 13, 14, 26
February 2018 Bearish Days: Data 1997-2017			
	28	16, 28	5, 28

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
Suncoast & Orlando, Florida –
February 6-10

Chief Market Strategist
Jeffrey Hirsch
The MoneyShow Orlando
Omni Orlando Resort
at ChampionsGate
Orlando, FL – February 8-10

Chief Market Strategist
Jeffrey Hirsch
TradersEXPO New York
Marriott Marquis Hotel
New York City – February 25-27

Claraphi
Annual Conference
Ritz Carlton
Dana Point, CA – April 26-28

Founder & Chief Investment Officer
Joseph B. Childrey
HBW Partners 2018 Executives
Victoria, BC – May 7-10

Chief Market Strategist
Jeffrey Hirsch
The MoneyShow Las Vegas
Bally's/Paris Las Vegas
Las Vegas, Nevada – May 14-16

TradePMR RIA Conference
Synergy 2018
Marriott Marquis San Diego Marina
San Diego, CA – May 16-18

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. 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

Psychological: *Frothy.* Yes, the record is broken. Bullish sentiment is still running near multi-decade highs according to *Investor's Intelligence* Advisors Sentiment survey. Extreme levels of bullish sentiment are generally considered not good. However, as long as the market continues to rise (and valid reasons do exist for it to do so) a significant change in sentiment is unlikely.

Fundamental: *Accelerating.* Fourth quarter U.S. GDP is currently forecast at 3.4% by the Atlanta Fed's *GDPNow* model and the labor market remains firm with 148,000 net new jobs added in December. Corporate taxes have been cut and many companies are paying out bonuses, increasing pay, announcing intentions to invest in the U.S. and expand hiring. Earnings season is underway and already there is some confirmation that growth has accelerated.

Technical: *Overbought.* 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%.* As of today, CME Group's *FedWatch Tool* is showing just a 4.6% probability of another rate increase being announced at the end of next week's FOMC meeting. This will be Janet Yellen's final meeting as Fed Chair. Jerome Powell will become the 16th chairman on February 3. Considering he has served on the Fed's board since 2012 and has voted in favor of every action taken since then, the transition will most likely be smooth and the path of rate increases will likely remain slow and steady.

"…February's long-term record has been spotty, but DJIA has advanced for eight straight February's while S&P 500 have been up in seven of the last eight."

Seasonal: *Bullish.* Even though February's long-term record has been spotty, but DJIA has advanced for eight straight February's while S&P 500 have been up in seven of the last eight. In midterm years, February's performance has been above average, DJIA and NASDAQ +1.0%, S&P 500 +0.7%. However, February's following big January's (+4% or more) have declined or finished with a less than 1% gain 65% of the time.

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**.

2034-NLD-2/5/2018