



April Outlook: Brief Respite Before Worst Six Months and Midterm Bottom Pickers Paradise

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Holiday inspired trading before the Good Friday holiday market closing helped trim losses for the month of March and Q1 2018. NASDAQ Composite's 2.3% gain for the first quarter of 2018 was a bright spot. So while there is much negativity on the news and in market action this year, I wanted to point out some positives and encourage patience through what promises to be a tumultuous ride over the next several months as the market and economy search for support for the next leg higher.

The volatility this March was actually not all that unusual. Last month we summoned the famous warning Julius Caesar failed to heed as a reminder to *beware The Ides of March*. As it did this year the market tends to come into March strong, but then after mid-month is prone to weakness and big end-of-Q1 hits. Most of the damage occurred the week after the *Ides*, which is also the week after March Triple Witching (when stock options, index options and index futures contracts all expire on the third Friday) as it does most years.

Much like the weather surrounding the vernal equinox, March market action has been rather volatile and turbulent in recent years with wild fluctuations and large gains and losses. This is precisely what we witnessed in 2018.

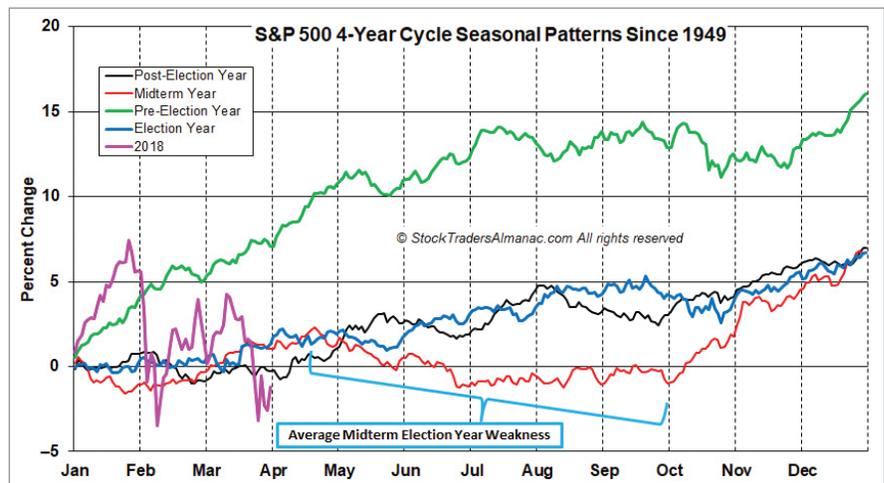
This is also typical midterm election year market behavior. In fact, the timing of President Trump's policy successes and more unsettling agenda initiatives like the tariff and trade machinations have been similar to the timing of a democratic president, who usually don't ramp up their less savory policy pushes until the midterm year. This is what generally makes post-election years worse for republicans and midterm years worse for

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democrats. The policies are not "democratic" in nature, but the timing is and this is setting up a typically more pronounced midterm year Worst Six Months (May-October) for 2018 as illustrated in the graph of "S&P 500 4-Year Cycle Seasonal Patterns Since 1949."

Midterm Aprils are historically a bit softer, but since we've come down so much ahead of April, a bit of a respite this April is possible. Then the historically weakest two quarters of the 4-year cycle and the worst six months begin. Since 1949



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the second and third quarters of midterm years have averaged losses of -1.8% for DJIA, -2.2% for S&P 500 and -6.7% since 1971 for NASDAQ. And remember since 1961, 9 of the last 17 bear markets bottomed in the midterm year.

But this would be a textbook set up for the sweet spot of the 4-year cycle and the “Midterm Year Bottom Picker’s Paradise.” The “sweet spot” of the 4-year cycle is the 3-quarter span from Q4 midterm year to Q2 pre-election year. Since 1949, market gains from the fourth quarter of midterm year to the second quarter of the pre-election year have averaged +20.4% for DJIA, +21.1% for S&P 500 and +32.0% since 1971 for NASDAQ. Also the gain from the midterm low to pre-election year high has averaged +47.4 since 1914 for DJIA and +70.2% NASDAQ since 1971.

So while we are less sanguine after April for the worst

| Four-Year Presidential Election Cycle Sweet Spot | | | | | | | |
|--|---------------------|-------|-------|-------|---------|-------|-------|
| | Quarterly % Changes | | | | Year | Q2-Q3 | Q4-Q2 |
| | Q1 | Q2 | Q3 | Q4 | | | |
| Dow Jones Industrials (1949-March 2017) | | | | | | | |
| Average | 2.3% | 1.5% | 0.4% | 4.0% | 8.4% | 2.0% | 8.2% |
| Post Election | -0.1% | 1.6% | 0.3% | 3.8% | 5.7% | 2.0% | 3.9% |
| Midterm | 1.4% | -1.5% | -0.4% | 7.1% | 6.7% | -1.8% | 20.4% |
| Pre-Election | 7.1% | 4.9% | 1.0% | 2.6% | 15.8% | 5.9% | 4.4% |
| Election | 1.0% | 1.0% | 0.7% | 2.3% | 5.3% | 1.8% | 3.7% |
| S&P 500 (1949-March 2017) | | | | | | | |
| Average | 2.3% | 1.6% | 0.6% | 4.1% | 8.9% | 2.3% | 8.6% |
| Post Election | -0.2% | 2.2% | 0.7% | 3.5% | 6.2% | 3.0% | 2.4% |
| Midterm | 1.0% | -2.4% | 0.1% | 7.8% | 6.7% | -2.2% | 21.1% |
| Pre-Election | 7.1% | 4.9% | 0.6% | 3.2% | 16.1% | 5.5% | 6.4% |
| Election | 1.6% | 1.8% | 1.1% | 2.0% | 6.7% | 2.9% | 4.0% |
| NASDAQ Composite (1971-March 2017) | | | | | | | |
| Average | 4.3% | 3.1% | 0.15% | 4.5% | 12.4% | 3.4% | 12.0% |
| Post Election | -1.2% | 6.6% | 2.2% | 4.8% | 11.1% | 8.7% | 4.1% |
| Midterm | 2.0% | -2.7% | -4.5% | 8.6% | 2.7552% | -6.7% | 32.0% |
| Pre-Election | 12.9% | 7.5% | 0.9% | 5.4% | 28.8% | 8.5% | 8.9% |
| Election | 4.4% | 0.7% | 1.8% | -0.6% | 6.0% | 2.8% | 3.2% |

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six months, our Base Case Annual Forecast scenario is still on track for above average midterm year gains in the range of 8-15%, with a mild worst six months correction or pullback. This is further supported by the Positive January Indicator Trifecta we registered with the Santa Claus Rally, the First Five Days and the full-month January Barometer all up this year.

We will be looking at first quarter corporate earnings announcements in April to shed some light on the health and growth prospects of corporate America and companies around the world and the 30-Year Treasury Bond for signs of overall economic strength as the recent softness in 30-Year Treasury yields was driven by a cooling of growth and inflation expectations. On the risk side, we will be keeping an eye out for more state tax increases like what’s going on in Utah and a technical breakdown in all the major averages below the February lows for signs of weakness. So far we have once again found support around the 200-day moving averages.

April Almanac: Up Twelve Straight, But Weaker in Midterm Years

The first trading day of April and the second quarter, has enjoyed exceptional strength over the past

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| Midterm-Year April since 1950 | | | | |
|-------------------------------|------|-------|----|------|
| | Rank | Avg % | Up | Down |
| DJIA | 7 | 0.8 | 11 | 6 |
| S&P 500 | 7 | 0.2 | 11 | 6 |
| NASDAQ* | 6 | -0.1 | 5 | 6 |

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23 years, advancing 17 times with an average gain of 0.49% in all 23 years for S&P 500. Declines occurred in 2001, 2002, 2005, 2013, 2015 and 2017. The worst, or largest decline, was 1.25% in 2001. This year, April 2 is also the day after Easter which has been the S&P 500's worst post-holiday trading session. From 1984 to 2003, S&P 500 declined 16 times. In the fourteen years since, S&P has been up ten times.

April marks the end of the historically "Best Six Months" for DJIA and the S&P 500, November-April. The historically "Worst Months," May-October have been more pronounced in past midterm years.

April 1999 was the first month to gain 1000 DJIA points. However, from 2000 to 2005, "Tax" month was hit, declining in four of six years. Since 2006, April has been up twelve years in a row with an average gain of 2.5% to reclaim its position as the best DJIA month since 1950. April is third best for S&P (since 1950) and fourth best for NASDAQ (since 1971).

The first half of April used to

outperform the second half but since 1994 that has no longer been the case. The effect of April 15 Tax Deadline appears to be diminished. Traders and investors are apparently more focused on first quarter earnings during April. Exceptional Q1 earnings and positive surprises tend to be anticipated with stocks and the market moving up in advance of the announcements and consolidating or correcting afterwards.

Typical midterm-election year woes in the past have tempered April's performance since 1950. April is DJIA's and S&P 500's seventh best month in midterm-election years, up 11 of the last 17. For NASDAQ, April is the sixth best month in midterm years.

| April (1950-2017) | | | | | | |
|---|---------------------|------|----------------|-------|------------|-------|
| | DJIA | | S&P 500 | | NASDAQ | |
| Rank | 1 | | 3 | | 4 | |
| # Up | 46 | | 48 | | 30 | |
| # Down | 22 | | 20 | | 17 | |
| Average % | 1.9 | | 1.5 | | 1.4 | |
| 4-Year Presidential Election Cycle Performance by % | | | | | | |
| Post-Election | 1.9 | | 1.5 | | 2.4 | |
| Mid-Term | 0.8 | | 0.2 | | -0.1 | |
| Pre-Election | 4.0 | | 3.5 | | 3.5 | |
| Election | 0.9 | | 0.6 | | -0.4 | |
| Best & Worst April by % | | | | | | |
| Best | 1978 | 10.6 | 2009 | 9.4 | 2001 | 15.0 |
| Worst | 1970 | -6.3 | 1970 | -9.0 | 2000 | -15.6 |
| April Weeks by % | | | | | | |
| Best | 4/11/1975 | 5.7 | 4/20/2000 | 5.8 | 4/12/2001 | 14.0 |
| Worst | 4/14/2000 | -7.3 | 4/14/2000 | -10.5 | 4/14/2000 | -25.3 |
| April Days by % | | | | | | |
| Best | 4/5/2001 | 4.2 | 4/5/2001 | 4.4 | 4/5/2001 | 8.9 |
| Worst | 4/14/2000 | -5.7 | 4/14/2000 | -5.8 | 4/14/2000 | -9.7 |
| April 2018 Bullish Days: Data 1997-2017 | | | | | | |
| | 2, 3, 5, 13, 16, 17 | | 2, 3, 5, 9, 13 | | 2-4, 9, 11 | |
| | 19, 20, 26, 27 | | 17, 18, 20, 27 | | 17, 20, 27 | |
| April 2018 Bearish Days: Data 1997-2017 | | | | | | |
| | 4, 30 | | 30 | | 9, 12, 25 | |

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 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.

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Market at a Glance

Psychological: *Disbelief.* For all the volatility the market has exhibited over the past two months, bullish sentiment is still elevated. According to [Investor's Intelligence](#) Advisors Sentiment survey bulls are at 49.5% and correction advisors stand at 33%. Bearish advisors remain scarce at 17.5%. Further declines in bullish sentiment would be a welcome sign as negative sentiment is usually strongest near bottoms.

Fundamental: *Firm.* Unemployment remains low and corporate earnings forecasts remain firm. Q1 GDP estimates have cooled and the Atlanta Fed *GDPNow* model is currently forecasting 2.4% for the quarter. Tariffs have the potential to dampen global activity, but thus far it looks more like a negotiating tactic rather than an actual major shift in policy. Numerous exceptions have already been given for the steel and aluminum tariffs mitigating their full impact and likely setting the precedent for any future tariffs.

Technical: *Bouncing.* March's second-half selloff appears to have found support around 200-day

moving averages (DMA). S&P 500 was closest to its 200-DMA. DJIA and NASDAQ declines paused just above their respective 200-DMA. Technical indicators are in or very near oversold territory. If headline news risk abates, the stage is set for a near-term bounce. Whether or not the bounce becomes a sustainable rally will largely depend upon early Q1 earnings results and accompanying Q2 and beyond guidance.

Monetary: *1.50-1.75%.* The Fed did exactly what was widely anticipated when its March meeting ended, they raised rates 0.25%. Rates are still expected to go higher later this year, but the Fed remains data dependent. The pace of future increases will largely depend upon inflation and growth data and expectations. In the meantime, longer-term rates are still low within a historical context.

Seasonal: *Bullish.* April is the best DJIA month since 1950, third best for S&P and fourth best for NASDAQ (since 1971). However, typical midterm-election year woes have historically tempered April's performance. April is also the last month of the "Best Six Months."

"Typical midterm election year woes have historically tempered April's performance."

Events Calendar

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



**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, NV – May 14-16

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

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