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May Outlook: Worst Six Months, Crueler In Midterm Years, Begins

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As the market is finally making a rally attempt at the end of April, the last month of the Best Six Months" we are obligated to remind you that the "Worst Six Months" are now upon us, and as we pointed out last month this bearish seasonal stretch has been more pronounced in midterm years.

For the near term over the next several weeks the rally may have some legs. But as we get into the summer doldrums and the midterm election campaign battlefront becomes more engaged, we believe the market may soften further during the weakest two quarter stretch in the 4-year cycle. However, this can set up a quintessential Midterm Election Year Bottom Picker's Paradise.

While everything may seem extremely troublesome in the market right now, please remember that the Best Six Months still remain positive with the Dow and the S&P up about 4% since the close of October 2017 and we still have the positive January Indicator Trifecta. When the Worst Six Months get underway, after we get our technical Seasonal Sell Signal we will shift our bias a more cautious, risk-off stance.

Historical precedents held true this April with weaker performance in the midterm year than all years. But all things considered in the new normal volatility, stocks held up rather well in the face of the tumultuous geopolitical and financial news flow. DJIA once again found support just above its key technical level. Market internals are really not that encouraging right now and if we do not see improvement here then the market is more likely to succumb to headline risk and seasonal weakness.

After peaking in late February, the yield on the 30-year Treasury bond meandered lower, but began to rise again last week. The resumption in the rise in rates is likely a reflection of the steady, but decelerating growth in the economy and corporate America, the modest pace of rising inflation and the continuation of the measured pace of rate increases by the Fed.

Inside

May Almanac: Start of "Worst Six Months" for DJIA and S&P 500

May officially marks the beginning of the "Worst Six Months" for the DJIA and S&P. To wit: "Sell in May and go away." 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 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.

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In the years since 1997, May's performance has been erratic; DJIA up ten times in the past twenty years (three of the years had

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gains in excess of 4%). NASDAQ suffered five May losses in a row from 1998-2001, down -11.9% in 2000, followed by eleven sizable gains in excess of 2.5% and four losses, the worst of which was 8.3% in 2010. Since 1950, midterm-year Mays rank poorly, #9 DJIA with an average loss of -0.7% and #10 S&P 500 with an average loss of -0.9%.

Midterm-Year May since 1950

	Rank[1]	Avg %	Up	Down
DJIA	9	–0.7	8	9
S&P 500	10	–0.9	8	9
NASDAQ*	9	–1.2	5	6

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

** Since 1974*

May (1950-2017)	DJIA		S&P 500		NASDAQ	
Rank[2]	9		8		5	
# Up	36		40		29	
# Down	32		28		18	
Average %	–0.02		0.2		1.0	
4-Year Presidential Election Cycle Performance by %						
Post-Election	1.3		1.7		3.4	
Mid-Term	–0.7		–0.9		–1.2	
Pre-Election	0.1		0.2		1.9	
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	–6.0	5/25/1962	–6.8	5/7/2010	–8.0
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 2018 Bullish Days[3]: Data 1997-2017						
	1, 2, 8, 10		1, 15, 25		1, 2, 8, 21, 29, 30	
May 2018 Bearish Days[4]: Data 1997-2017						
	3, 4, 11, 18, 22		3, 4, 11, 14, 18, 22		3, 18	

[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.*

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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Events Calendar

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

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

To Register Early For An Event or
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Market at a Glance

Psychological: *Woke.* Market volatility this year finally spooked the bulls a tad. Bullish sentiment is still elevated though. According to *Investor's Intelligence* Advisors Sentiment survey bulls are at 48.0%, up from a more fearful low of 42.2% two weeks ago. Correction advisors are down to 32.4% from a nearly 2-year high of 39.2% two weeks ago. Bearish advisors have ticked up to 19.6%, a 6-month high. 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 came in strong, but traders got frightened briefly by some guidance that hinted at peak earnings. That remains to be seen. Q1 GDP estimates have continued to cool and the Atlanta Fed *GDPNow* model is currently forecasting 2.0% 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. Meanwhile Trump is sending his team of top economic advisors to China for trade talks next week, including Mnuchin, Kudlow, Navarro and trade rep Lighthizer… Stay tuned.

Technical: *Bouncing.* Another selloff here in April once again appears to have found support yesterday near key technical levels. Other technical indicators are nearing a turn upwards in oversold territory. Relative strength has recently begun to rise again and our seasonal sell indicators just held off a sell signal and have turned higher again. If headline news risk abates and earnings continue to come in strong and there is no more spooky guidance, this rally could run higher into early- or mid-May before the worst six months kick in.

"The pace of future increases will largely depend upon inflation and growth data and expectations. Though the 10-Year bond yield's move slightly above 3% sent stocks reeling earlier this week, longer-term rates are still low within a historical context."

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. Though the 10-Year bond yield's move slightly above 3% sent stocks reeling earlier this week, longer-term rates are still low within a historical context. In the past, stocks were able to rally in the face of rising rates and oil prices from late 1998 through early 2000, just before the dotcom bubble popped.

Seasonal: *Bearish.* May officially marks the beginning of the "Worst Six Months" for the DJIA and S&P. To wit: "Sell in May and go away." May has been a tricky month over the years, a well-deserved reputation following the May 6, 2010 "flash crash" and the old "May/June disaster area" from 1965 to 1984. Since 1950, midterm-year Mays rank poorly, #9 DJIA with an average loss of -0.7% and #10 S&P 500 with an average loss of -0.9%.

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