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August Almanac: Worst Month of the Year

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Money flows from harvesting made August a great stock market month in the first half of the Twentieth Century. August was the best month from 1901 to 1951. In 1900, 37.5% of the population was farming. Now that less than 2% farm, August is the worst months of the year. It is the worst DJIA and S&P 500 month since 1987 with average declines of 1.0% and 0.8% respectively. August is also the worst month for NASDAQ (-0.1%) over the same time period.

Contributing to this poor performance since 1987 was the shortest bear market in history (45 days) caused by turmoil in Russia, the Asian currency crisis and the Long-Term Capital Management hedge fund debacle ending August 31, 1998 with the DJIA shedding 6.4% that day. DJIA dropped a record 1344.22 points for the month, off 15.1% — which is the second worst monthly percentage DJIA loss since 1950.

Saddam Hussein triggered a 10.0% slide in August 1990. The best DJIA gains occurred in 1982 (11.5%) and 1984 (9.8%) as bear markets ended. Sizeable losses in 2010, 2011, 2013 and 2015 of over 4% on DJIA have widened Augusts' average decline. A strong August in 2014 of S&P 3.8% and NASDAQ 4.8% preceded corrections of 7.4% and 8.4% respectively from mid-September to mid-October.

In midterm years since 1950, Augusts' rankings improve slightly: #8 DJIA, #9 S&P 500, #11 NASDAQ (since 1974). Average losses are -0.7% for DJIA, -0.4% for the S&P 500 and -1.8% for NASDAQ. DJIA suffered double-digit losses in 1974, 1990 and 1998.

Inside

August Vital Stats (1950-2017)						
	DJIA		S&P 500		NASDAQ	
Rank[2]	10		11		11	
# Up	38		37		26	
# Down	30		31		21	
Average %	–0.2		–0.1		0.1	
4-Year Presidential Election Cycle Performance by %						
Post-Election	–1.7		–1.4		–1.2	
Mid-Term	–0.7		–0.4		–1.8	
Pre-Election	0.9		0.5		0.7	
Election	0.7		0.9		2.7	
Best & Worst August by %						
Best	1982	11.5	1982	11.6	2000	11.7
Worst	1998	–15.1	1998	–14.6	1998	–19.9
August Weeks by %						
Best	8/20/1982	10.3	8/20/1982	8.8	8/3/1984	7.4
Worst	8/23/1974	–6.1	8/5/2011	–7.2	8/28/1998	–8.8
August Days by %						
Best	8/17/1982	4.9	8/17/1982	4.8	8/9/2011	5.3
Worst	8/31/1998	–6.4	8/31/1998	–6.8	8/31/1998	–8.6
August 2018 Bullish Days3: Data 1997-2017						
	14, 17, 22, 29		15-17, 22, 29 19, 30		14-17, 22, 29 17-19, 30	
August 2018 Bearish Days4: Data 1997-2017						
	1, 10, 21, 27, 30		20, 30		2, 7, 8, 20, 21	

[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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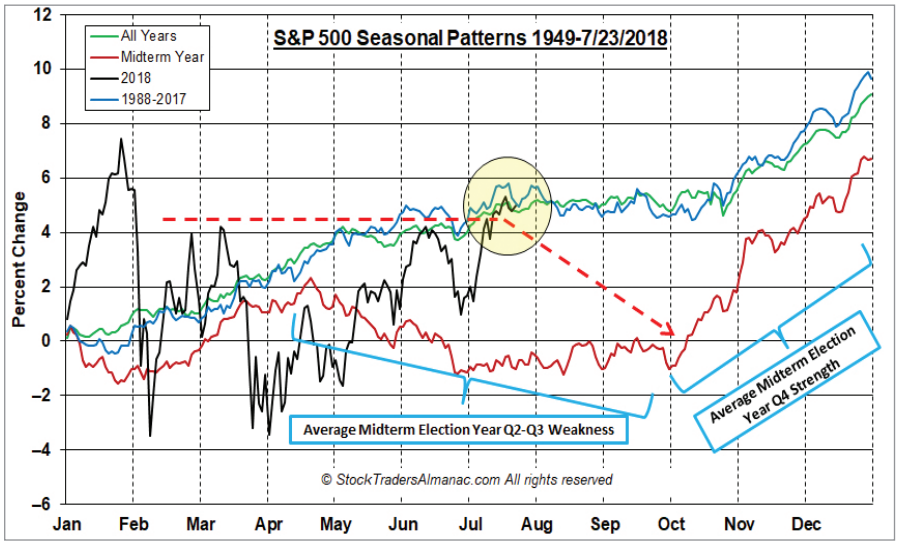
August Outlook: Hot Julys Often Bring Late-Summer/Autumn Buys

Geopolitical concerns over the past few months from snafus and issues at the U.S. southern border over immigration disputes to tough tariff talk and trade war concerns have been shrugged off by the market since the end of June. Positive Q2 earnings, rising GDP growth, sustained unemployment and low rates continue to please the market, sending the market higher in July. This put DJIA up 4.00%, S&P 500 up 3.75% and NASDAQ up 4.40% for the month of July so far, qualifying this as a "Hot July Market".

Gains of this magnitude for July, however, have frequently been followed by a late-summer or autumn selloffs and better buying opportunities than now. In the past, full-month July gains in excess of 3.5% for DJIA have been followed historically by declines of 6.8% on average in the Dow with a low at some point in the last 5 months of the year.



Our concern presently is that as the market enters the historically worst two months of the year, August and September, it is getting a bit extended. This is reminiscent of the market in January 2018. Equity prices are once again pushing the top of the trading range and sentiment is heating up again. Sentiment is not quite as high as it was in January, but the market is more vulnerable seasonally as August is historically the worst month of the year. Volume tends to dry up during the vacation month leaving a vacuum of buyers that has frequently sucked the market lower.

In the chart above of the S&P 500 Seasonal Patterns, you can clearly see the S&P 500 in 2018 as represented by the black line finally poking above recent overhead resistance at the March and June highs. However, it is now at the time of the year historically where the market has stalled at its seasonal peak. The green line representing all years since 1949 and the blue line representing the years since the 1987 Crash both enter a sideways to lower trajectory from August through October.

The red line that represents the average of all midterm years since 1949 is clearly weaker during the historically worst six months May-October. This year has defied history for now, but the concern is that the market is poised to revert to the mean and consolidate over the next three months, more in line with the midterm year seasonal pattern.

However, we are not expecting any major selloff or decline at this juncture. We searched high and low and negative indicators and data are few and far between. The biggest risk to the market right now is the Fed. So far this new Fed under the guidance of Chairman Powell seems to be doing a superlative job. But that job entails normalizing rates as much as possible and reducing the balance sheet to chaperon the economy and market into a healthy growth without the Kool-Aid of super easy money.

For now, expect the market to fade into summer with increased volatility heading into what promises to be a rather contentious midterm election season with a low point in the August-October time frame, holding the February/March lows at worst. Then as we hit the sweet spot of the 4-Year Cycle, which begins in Q4 of the midterm year (as you can see in the chart) and runs through Q2 of the pre-election year we expect the market to rally to new highs toward yearend 2018 and into 2019.

August Almanac: Worst Month of the Year

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The first nine trading days of the month have exhibited weakness while mid-month is strongest. Note the bullish cluster from August 15-17. The end of August tends to get whacked as traders evacuate Wall Street for the summer finale. S&P 500 has been up only six times on the next to last day in the past 22 years. In the last 22 years, the last five days of August have averaged losses of: Dow Jones Industrials, -0.9%; S&P 500, -0.8% and NASDAQ, -0.4%.

Midterm-Year August since 1950

	Rank[1]	Avg %	Up	Down
DJIA	8	–0.7	10	7
S&P 500	9	–0.4	11	6
NASDAQ*	11	–1.8	6	5

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

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Events Calendar

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

Probabilities Fund Management
August 2018 Market Outlook
Monthly Webcast
July 31

Founder & Chief Investment Officer
Joseph B. Childrey
Advisor Dinner @ Morton's The Steakhouse
1200 Brickell Ave., Miami, FL 33131 – September 11

Probabilities Fund Management
September 2018 Market Outlook
Monthly Webcast
August 31

Founder & Chief Investment Officer
Joseph B. Childrey
CPR Investments 2018 Conference
Fort Lauderdale, FL – September 12-14

To Register Early For An Event or For More Information, Call (800) 519-0438 or Email info@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 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: *Unwavering.* July strength helped sustain bullish investor sentiment. According to *Investor's Intelligence* Advisors Sentiment survey bulls are at 55.3%. Correction advisors are up modestly to 26.2% and Bearish advisors are just 18.5%. Thus far Q2 earnings season has supported the bulls with the vast majority of companies reporting better than expected numbers. As long as the trend of better-than-expected reports continues, the market is likely to continue to climb the wall of worry.

Fundamental: *Firm.* U.S. unemployment ticked higher to 4.0% earlier this month, but remains solid. Atlanta Fed *GDPNow* model is currently forecasting Q2 growth of 4.5%. Tariffs and U.S. dollar strength could have an impact on corporate earnings, but it will likely be limited as China will support its exporters by weakening the yuan and other stimulus efforts.

Technical: *Conflicted.* NASDAQ traded at new all-time highs earlier this month, but DJIA and S&P 500 are still lagging. DJIA's chart is the weakest as the gap between its 50- and 200-day moving averages continues to shrink while DJIA is currently just above its 50-day moving average. The divergences between the major indexes are still not a bullish indicator.

Monetary: *1.75-2.00%.* The Fed's next meeting will end on August 1 and the current probability of a rate increase at this meeting is just 2.5% according to CME Group's *FedWatch* Tool as of July 24. The Fed has raised rates seven times thus far and they are shrinking their balance sheet. This combination of monetary policy tightening is beginning to raise concerns that they may go too far. Already there have been calls for a pause in rate increases. The Fed could be the market's and the economy's worst enemy if they tighten too quickly or too much.

"The Fed has raised rates seven times thus far and they are shrinking their balance sheet. This combination of monetary policy tightening is beginning to raise concerns that they may go too far. Already there have been calls for a pause in rate increases. The Fed could be the market's and the economy's worst enemy if they tighten too quickly or too much."

Seasonal: *Bearish.* August is the worst month of the year since 1988. Average losses over the last 30 years range from 0.3% by NASDAQ to 1.2% by DJIA. In midterm years since 1950, Augusts' rankings improve slightly: #8 DJIA, #9 S&P 500, #11 NASDAQ (since 1974). Average losses range from 0.4% for S&P 500 to 1.8% for NASDAQ. DJIA suffered double-digit losses in 1974, 1990 and 1998.

More Information

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