

SEASONAL STRATEGIST

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July Almanac: Best Month of Q3, But NASDAQ Struggles

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July historically is the best performing month of the third quarter however, the mostly negative results in August and September make the comparison easy. Two “hot” Julys in 2009 and 2010 where DJIA and S&P 500 both gained greater than 6% and a strong performance in 2013 have boosted July’s average gains since 1950 to 1.2% and 1.0% respectively. Such strength inevitability stirs talk of a “summer rally”, but beware the hype, as it has historically been the weakest rally of all seasons (page 70, *Stock Trader’s Almanac 2018*).

July begins NASDAQ’s worst four months and is the third weakest performing NASDAQ month since 1971, posting a 0.4% average gain. Dynamic trading often accompanies the first full month of

summer as the beginning of the second half of the year brings an inflow of new funds. This creates a bullish beginning, a soft week after options expiration and strength towards the end.

July’s first trading day is the second best performing first trading day of all twelve months with DJIA gaining a cumulative 1139.97 points since 1998. Over the past 21 years, DJIA’s first trading day of July has produced gains 81.0% of the time with an average advance of 0.44%. S&P 500

Inside

July Outlook	1
July Almanac	2
Events Calendar	3
Market at a Glance	4

has advanced 85.7% of the time (average gain 0.42%). NASDAQ has been slightly weaker at 71.4% (0.21% average gain). No other day of the year exhibits this amount of across-the-board strength which makes a case for declaring the first

Midterm-Year July since 1950				
	Rank ¹	Avg %	Up	Down
DJIA	5	1.1	10	7
S&P 500	6	0.7	9	8
NASDAQ*	12	-2.2	3	8

¹ Based upon the average historical monthly performance of the indices in comparison to other months of the year.
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July (1950-2017)				
	DJIA	S&P 500	NASDAQ	
Rank ²	4	5	10	
# Up	43	38	25	
# Down	25	30	22	
Average %	1.2	1.0	0.4	
4-Year Presidential Election Cycle Performance by %				
Post-Election	2.2	2.1	3.4	
Mid-Term	1.1	0.7	-2.2	
Pre-Election	1.0	0.9	0.9	
Election	0.5	0.4	-0.7	
Best & Worst July by %				
Best	1989 9.0	1989 8.8	1997 10.5	
Worst	1969 -6.6	2002 -7.9	2002 -9.2	
July Weeks by %				
Best	7/17/2009 7.3	7/17/2009 7.0	7/17/2009 7.4	
Worst	7/19/2002 -7.7	7/19/2002 -8.0	7/28/2000 -10.5	
July Days by %				
Best	7/24/2002 6.4	7/24/2002 5.7	7/29/2002 5.8	
Worst	7/19/2002 -4.6	7/19/2002 -3.8	7/28/2000 -4.7	
July 2018 Bullish Days ³ : Data 1997-2017				
	2, 9, 12, 13, 19	2, 5, 12, 13, 19, 30	2, 6, 9-13, 17-19, 30	
July 2018 Bearish Days ⁴ : Data 1997-2017				
	3, 20, 24, 31	3, 16, 20	3, 20, 31	

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.

(continued on page 2)

trading day of July the most consistently bullish day of the year over the past 21 years.

Trading on the day before and after the Independence Day holiday is often lackluster. Volume tends to decline on either side of the holiday as vacations begin early and finish late. Since 1980, DJIA, S&P 500 and NASDAQ have recorded net losses on the day after.

July Outlook: June Swoon Indicates Time to Take More Risk Off For Summer

So far our June 21 NASDAQ Best 8 Months Sell Signal has turned out to be rather timely. From our November 28 Buy Signal to our June 21 Sell Signal NASDAQ gained 11.6%. NASDAQ has given back sizeable ground since June 21. The Dow and S&P 500 have been in selloff mode a bit longer since June 13.

We have been getting on the defensive since our May 2 Dow and S&P 500 Best Six Months Sell signal and it now looks like seasonal and geopolitical pressures are beginning to take a toll on the market.

As June and Q2 come to a close stocks are trying to mount a rally and July is the best month of the third quarter. It remains to

be seen if NASDAQ's perennial mid-year rally can materialize and lift all stocks. But if it does it will provide ample opportunity to unload underperforming and unwanted positions and firm up your summer portfolio defense.

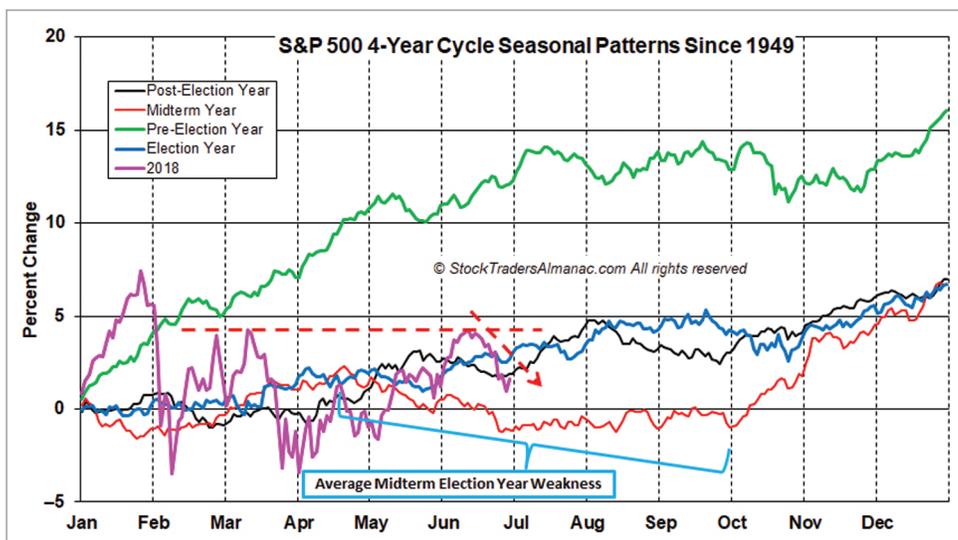
You can see in the updated chart above of the S&P 500 4-Year Cycle Seasonal Patterns that the blue chip index failed at resistance (red-dotted line) and did not clear

Midterm-year July rankings are something of a mixed bag, ranking #5 for DJIA and #6 S&P 500, averaging gains of 1.1% and 0.7% respectively (since 1950); while NASDAQ (since 1974) midterm Julys rank #12. NASDAQ has only advanced in three of the last eleven midterm Julys with an average loss of 2.2%.

the March highs. We are solidly in risk off mode. The Best Months are over, summer is worse in midterm years and the rhetoric and developments in the geopolitical arena are conspiring to spook the market.

GE's boot from the Dow doesn't seem to be helping matters either. And as we enter deeper into the bearish season several matters could jolt market. Trump's scheduled tête-à-tête with Putin and the ongoing trade and tariff battles are bound to give markets a scare.

Then there is the pressure of rising oil prices and the sudden bout of cold feet we are hearing from the Fed as inflation begins to percolate. High market valuations may be succumbing



to bearish seasonality and midterm politicking as the market is on the brink of a technical breakdown through support.

So, stick to the drill and keep your powder dry. Raise some cash. Continue to weed out losing or lagging positions, pick up some more defensive holdings and wait for that fatter pitch we anticipate later in Q3 or early Q4 as we hit the sweet spot of the 4-Year Cycle.

Events Calendar

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



Chief Market Strategist
Jeffrey Hirsch
Market Outlook Webinar
July 17

**CalALTs 9th Annual
Summer Social**
**Hosted at Founder & Chief Investment Officer
Joseph B. Childrey's Penthouse in Little Italy**
San Diego – July 18 – 6pm - 9pm

Founder & Chief Investment Officer
Joseph B. Childrey
Advisor Dinner @ Ruth's Chris Steak House
11582 El Camino Real, San Diego, CA 92130 – July 25

Founder & Chief Investment Officer
Joseph B. Childrey
Advisor Dinner @ Ruth's Chris Steak House
1355 North Harbor Drive, San Diego, CA 92101 – July 26

**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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The Seasonal Strategist

Market at a Glance

Psychological: *Determined.* Early June tech and small-cap strength helped buoy investor sentiment even as the market weakened recently. According to *Investor's Intelligence* Advisors Sentiment survey bulls are at 47.6%. Correction advisors are up modestly to 34.0% and Bearish advisors are just 18.4%. Q2 earnings season will either confirm the bullish case or it could start to poke holes in it.

Fundamental: *Firm.* U.S. unemployment at 3.8% is solid. Atlanta Fed GDPNow model is currently forecasting Q2 growth of 4.5%. Corporate earnings forecasts remain solid for the balance of 2018 and into 2019, but recent U.S. dollar strength and tariffs could erode those estimates. Emerging and Chinese markets merit close attention as weakness there could have some spillover effects.

Technical: *Divergent.* NASDAQ was trading at new all-time highs earlier this month, but DJIA and S&P 500 were woefully lagging. As a result, NASDAQ's chart is firmer. Recent weakness has caused DJIA to breakdown through its 200-day moving average; S&P 500 is trading between its 50- and 200-day

moving averages while NASDAQ is still above its respective 50-day moving average. The divergences between the major indexes are not a bullish indicator.

Monetary: *1.75-2.00%.* June's Fed meeting came and went with little drama. Just as widely expected, the Fed did raise its federal funds rate 0.25%.

The Fed's next meeting will end on August 1 and the current probability of a rate increase during this meeting is just 4.0% according to CME Group's *FedWatch* Tool. Monetary policy is tightening, but rates still remain low for consumers and corporations within historical context.

Seasonal: *Bearish.* July historically is the best performing month of the third quarter however, the mostly negative results in August and September make the comparison easy. July begins NASDAQ's worst four months and is the third weakest performing NASDAQ month since 1971, posting a 0.4% average gain. Midterm-year July rankings are something of a mixed bag, ranking #5 for DJIA and #6 S&P 500, averaging gains of 1.1% and 0.7% respectively (since 1950); while NASDAQ (since 1974) midterm Julys rank #12.

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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.

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