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September Almanac: Midterm Elections Further Quell Returns

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Since 1950, September is the worst performing month of the year for DJIA, S&P 500, NASDAQ (since 1971). September was creamed four years straight from 1999-2002 after four solid years from 1995-1998 during the dot.com bubble madness. Although September's overall rank improves modestly in midterm years going back to 1950, average losses widen for DJIA (–1.0%) and NASDAQ (–0.8%). S&P 500's average September loss improves slightly from –0.5% to –0.4% in midterm years. Although September 2002 does influence the average declines, the fact remains DJIA has declined in 11 of the last 17 midterm-year Septembers. *(See page 3 for the Midterm-Year September Since 1950 chart.)*

The month has opened strong in 14 of the last 23 years (a fading trend as S&P 500 has been down five of the last seven first trading days), but as tans begin to fade and the new school year commences, fund managers tend to clean house as the end of the third quarter approaches, causing some nasty selloffs near month-end over the years. Recent substantial declines occurred following the terrorist attacks in 2001 (DJIA: –11.1%), 2002 (DJIA –12.4%), the collapse of Lehman Brothers in 2008 (DJIA: –6.0%) and U.S. debt ceiling debacle in 2011 (DJIA –6.0%).

In recent years, Labor Day has become the unofficial end of summer and the three-day weekend has become prime vacation time for many. Business activity ahead of the holiday was

Inside

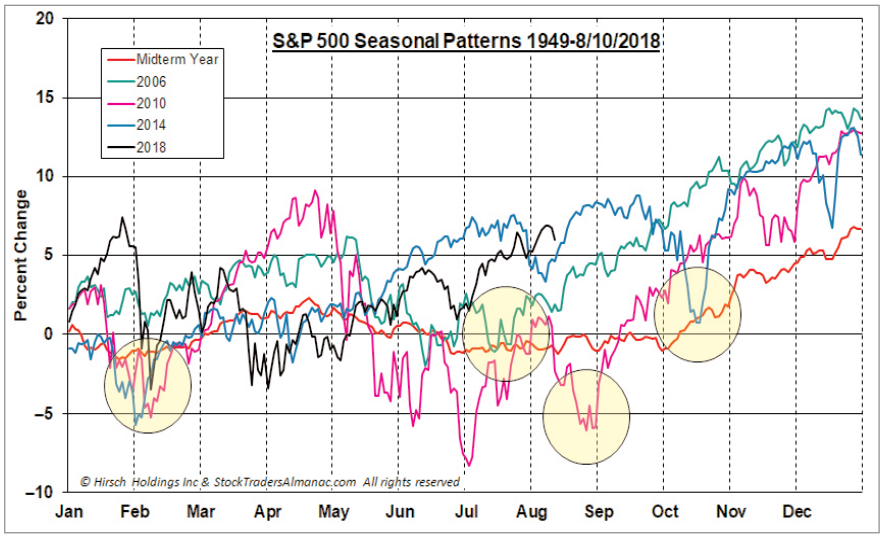
September Vital Stats (1950-2017)						
	DJIA		S&P 500		NASDAQ	
Rank[2]	12		12		12	
# Up	27		30		26	
# Down	41		37		21	
Average %	–0.7		–0.5		–0.5	
4-Year Presidential Election Cycle Performance by %						
Post-Election	–0.5		–0.5		–0.2	
Mid-Term	–1.0		–0.4		–0.8	
Pre-Election	–1.0		–0.9		–0.9	
Election	–0.4		–0.2		–0.0	
Best & Worst September by %						
Best	2010	7.7	2010	8.8	1998	13.0
Worst	2002	–12.4	1974	–11.9	2001	–17.0
September Weeks by %						
Best	9/28/2001	7.4	9/28/2001	7.8	9/16/2011	6.3
Worst	9/21/2001	–14.3	9/21/2001	–11.6	9/21/2001	–16.1
September Days by %						
Best	9/8/1998	5.0	9/30/2008	5.4	9/8/1998	6.0
Worst	9/17/2001	–7.1	9/29/2008	–8.8	9/29/2008	–9.1
September 2018 Bullish Days[3]: Data 1997-2017						
	5, 10, 12, 18, 20, 26		12, 13, 18, 26, 27		4, 12-14, 18	
September 2018 Bearish Days[4]: Data 1997-2017						
	7, 24, 28		24, 28		17, 24, 28	

[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 3)

September Outlook: Tumultuous Month Often Bucks Bulls Off Easy Ride

Midterm years are notoriously a rough year for markets as presidents push through their most disruptive policy initiatives and battle the opposition party to retain congressional seats. But the last three midterm years, 2006, 2010 and 2014 have been strong followed by troubled pre-election years. 2007 brought us the major top of the Financial Crisis with the S&P up 3.5%. 2011 suffered a mini-bear from April to October that shaved 19.4% off the S&P, which ended the year down a fraction -0.003%. Another mini-bear transpired in 2015 with the S&P losing 14.2% from May 2015 to February 2016. The S&P finished 2015 off -0.7% for the year.



From the chart on right comparing 2018 to the previous three midterm years 2006, 2010 and 2014, it looks like we could be setting up for above average midterm year market gains again followed by a weaker pre-election year prone to a bear market and a recession. Encircled in yellow, all four years suffered early-year declines in January/February. Looking forward from here the previous three midterm years had pullbacks that ended in July or August or September/October as was the case in 2014.

Contagion from the economic, currency and political crisis in Turkey has not spread as of yet, but we are reminded of the 1997-98 currency crisis that started with the Thai baht meltdown in July 1997 and then spilled over into other Asian currencies in the fall of 1997. But it wasn't until August 1998 when additional pressure from the Russian financial crisis caused the collapse of hedge fund behemoth Long Term Capital Management that had to be bailed out by Wall Street banks under the supervision of the Federal Reserve to prevent a deeper crisis.

Earnings season is winding down and has been well above estimates, again. This has buoyed the market, but the advance/decline lines are not robust, and traders and investors are complacent. VIX is back down under 14 today. *Investor's Intelligence* Advisors Sentiment has bulls back up to 57.3% vs. 18.4% bears, pushing the spread close to the danger zone. Weekly CBOE Equity-Only Put/Call ratio remains sanguine at 0.64.

This sets up the market for possible retracement of recent gains. But without a meaningful retreat or pullback, the Q4 rally could be muted and make us more vulnerable to an early 2019 top. Earnings comparisons will be much more challenging next year and tax cut and fiscal stimulus effects will begin to fade.

The wall of worry is not that tall. There is not much left to climb. Nothing negative has yet to stick to this White House and now it is reported that China is coming to visit later this month for renewed trade talks. China seems to be in trouble with the tariffs, the yuan has been slipping and the Shanghai composite is down 18.2% YTD.

The bottom line right now, whether you like it or not, is that President Trump's "Art of the Deal" policies are trumping bearish seasonality. Everyone has been on the weak August seasonality bandwagon for some time and that trade is a little too crowded right now for any bear to emerge.

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more energetic in the old days. From 1950 through 1977 the day before Labor Day pushed the DJIA higher in twenty-five of twenty-eight years. Bullishness has since shifted to favor the two days after the holiday as opposed to the days before. DJIA has gained in 16 of the last 24 Tuesdays and 17 of the last 23 Wednesdays following Labor Day.

Midterm-Year September since 1950

	Rank[1]	Avg %	Up	Down
DJIA	11	–1.0	6	11
S&P 500	8	–0.4	8	9
NASDAQ*	8	–0.8	4	7

[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:

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

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

Founder & Chief Investment Officer
Joseph B. Childrey
Advisor Dinner @ Morton's The Steakhouse
400 E. Flamingo Rd., Las Vegas, NV 89169
September 25

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

Seasonal: *Bearish.* September is the worst performing month of the year for DJIA, S&P 500, NASDAQ (since 1950), Russell 1000 and Russell 2000 (since 1979). In midterm years going back to 1950, average losses widen for DJIA (–1.0%), NASDAQ (–0.8%), Russell 1000 (–1.1%) and Russell 2000 (–0.6%). S&P 500's average September loss improves slightly from –0.5% to –0.4% in midterm years.

Psychological: *Resolute.* Turkey, Chinese growth, tariffs, etc. are not derailing the market or traders and investors. According to *Investor's Intelligence* Advisors Sentiment survey bulls are at 57.3%. Correction advisors are modestly lower at 24.3% and Bearish advisors are just 18.4%. The difference between bulls and bears remains at a cautious level that leaves room for further gains, but it also does not completely rule the possibility of a rough patch.

Fundamental: *Firm.* U.S. unemployment ticked back to 3.9% earlier this month. Atlanta Fed *GDPNow* model is currently forecasting Q3 growth of 4.3%. This follows a 4.1% reading for Q2 which was the best pace of growth in nearly four years. Biggest headwinds to growth are the Fed, additional tariffs and a stronger U.S. dollar. Thus far their impact has been limited.

Technical: *Divergent.* Major indexes have been marching to their own beat since dropping in late-January/early-February. DJIA is furthest from its last all-time closing high reached in January. S&P 500 is in second place, closer to its old high, but also dating back to January. The Russell 2000 had its run that ran out of gas in June. NASDAQ was recently at new all-time highs in July, but has struggled since. Advance/Decline lines for NASDAQ and Russell 2000 peaked in early July. S&P 500 and NYSE continued to climb into early August. Any attempt at new all-time highs by a single index is likely to be short-lived until participation broadens.

Monetary: *1.75-2.00%.* The Fed's next meeting will end on September 26 and the current probability of a rate increase at this meeting is 96.0% according to CME Group's *FedWatch* Tool as of August 16. At some point the combination of higher rates and a shrinking Fed balance sheet will begin to effect growth and the market. What level is open to debate, best guess would be somewhere around a 3% to 3.5% Fed funds rate could begin doing harm.

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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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