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October Almanac: Best Month of Midterm Year

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October often evokes fear on Wall Street as memories are stirred of crashes in 1929, 1987, the 554-point drop on October 27, 1997, back-to-back massacres in 1978 and 1979, Friday the 13th in 1989 and the 733-point drop on October 15, 2008. During the week ending October 10, 2008, Dow lost 1,874.19 points (18.2%), the worst weekly decline in our database going back to 1901, in point and percentage terms. The term "Octoberphobia" has been used to describe the phenomenon of major market drops occurring during the month. Market calamities can become a self-fulfilling prophecy, so stay on the lookout and don't get whipsawed if it happens.

But October has become a turnaround month — a "bear killer" if you will. Twelve post-WWII bear markets have ended in October: 1946, 1957, 1960, 1962, 1966, 1974, 1987, 1990, 1998, 2001, 2002 and 2011 (S&P 500 declined 19.4%). However, eight were midterm bottoms. This year is a midterm year, but the market has been resilient thus far during the Worst Months which may temper full-month October results.

Midterm-Year October since 1950

	Rank[1]	Avg %	Up	Down
DJIA	1	3.1	12	5
S&P 500	1	3.3	13	4
NASDAQ*	1	4.2	9	2

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

** Since 1974*

October Vital Stats (1950-2017)						
	DJIA		S&P 500		NASDAQ	
Rank[2]	7		7		7	
# Up	41		41		26	
# Down	27		27		21	
Average %	0.7		0.9		0.8	
4-Year Presidential Election Cycle Performance by %						
Post-Election	0.9		1.0		1.4	
Mid-Term	3.1		3.3		4.2	
Pre-Election	−0.5		0.1		0.1	
Election	−0.8		−0.7		−2.1	
Best & Worst October by %						
Best	1982	10.7	1974	16.3	1974	17.2
Worst	1987	−23.2	1987	−21.8	1987	−27.2
October Weeks by %						
Best	10/11/1974	12.6	10/11/1974	14.1	10/31/2008	10.9
Worst	10/10/2008	−18.2	10/10/2008	−18.2	10/23/1987	−19.2
October Days by %						
Best	10/13/2008	11.1	10/13/2008	11.6	10/13/2008	11.8
Worst	10/19/1987	−22.6	10/19/1987	−20.5	10/19/1987	−11.4
October 2018 Bullish Days[3]: Data 1997-2017						
	3, 4, 12, 18 26, 29		3, 4, 12, 16-19 23, 24, 31		2, 3, 12, 18 23, 31	
October 2018 Bearish Days[4]: Data 1997-2017						
	5, 11, 25		5, 25		None	

[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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October Almanac: Best Month of Midterm Year

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Midterm election year Octobers are downright stellar thanks to the major turnarounds mentioned above; ranking number one on the Dow, S&P 500 and NASDAQ. This is also the beginning of the sweet spot of the four-year-presidential-election-cycle. The fourth quarter of the midterm years combines with the first and second quarters of the pre-election years for the best three consecutive quarter span for the market, averaging 20.4% for the Dow and 21.1% for the S&P 500 (since 1949), and an amazing 32.0% for NASDAQ (since 1971).

Four-Year Presidential Election Cycle Sweet Spot

	Quarterly % Changes						
	Q1	Q2	Q3	Q4	Year	Q2-Q3	Q4-Q2
Dow Jones Industrials (1949-June 2018)							
Average	**2.2%**	**1.5%**	**0.5%**	**4.1%**	**8.6%**	**2.1%**	**8.3%**
Post Election	– 0.1%	1.7%	0.5%	4.2%	6.7%	2.3%	4.1%
Midterm	1.2%	– 1.4%	– 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	0.8%	1.0%	0.7%	2.3%	5.3%	1.8%	**4.5%**
S&P 500 (1949-June 2018)							
Average	**2.2%**	**1.7%**	**0.7%**	**4.2%**	**9.1%**	**2.4%**	**8.6%**
Post Election	– 0.2%	2.2%	0.9%	3.6%	7.0%	3.2%	2.7%
Midterm	0.9%	– 2.1%	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	1.3%	1.8%	1.1%	2.0%	6.7%	2.9%	**4.0%**
NASDAQ Composite (1971-June 2018)							
Average	**4.3%**	**3.1%**	**0.3%**	**4.5%**	**12.7%**	**3.6%**	**12.0%**
Post Election	– 1.2%	6.3%	2.5%	5.0%	12.6%	8.8%	4.1%
Midterm	2.0%	– 1.9%	– 4.5%	**8.6%**	2.8%	– 6.7%	**32.0%**
Pre-Election	**12.9%**	**7.5%**	0.9%	5.4%	28.8%	8.5%	8.9%
Election	3.4%	0.7%	1.8%	– 0.6%	6.0%	2.8%	**4.2%**

October Outlook: Midterm October Launching Pad

Historically, the "Worst Six Months" (WSM) of the midterm year has been weaker than WSM in all other years of the 4-Year Presidential Election Cycle, with Q2-Q3 of the midterm year being the weakest consecutive two-quarter combo of the cycle. August and September have historically been the worst two months of the year, though they rank higher in midterm years, but have still posted average losses in midterm years since 1950.

This has not been the case this year. Despite a fast and furious, albeit not terribly deep, correction in the first quarter of 2018, ranging from 9.7% on the NASDAQ to 11.6% on the DJIA, the U.S. stock markets have performed quite well this year. Fed Chairman Powell may have put it best yesterday in his news conference following the FOMC's decision to raise the Fed Funds Target Rate a quarter of a point.

In his official statement Chairman Powell stated that, "Both household spending and business investment are expanding briskly, and the overall growth outlook remains favorable. Several factors support this assessment: Fiscal policy is boosting the economy, ongoing job gains are raising incomes and confidence, and overall financial conditions remain accommodative."

With all these gains so far in 2018, there has been much talk on The Street that it will steal from the Q4 rally and the "Sweet Spot" of the 4-Year Cycle from Q4 in the midterm year through Q2 of the pre-election year. While gains have been slightly lower during the Sweet Spot after YTD gains as of midterm September, they are still rather robust.

Following YTD-September gains in the midterm year this three-quarter Sweet Spot has produced average gains of 16.8% for the S&P 500 vs. 21.1% in all midterm year Sweet Spot rallies since 1950. And most importantly, fundamental and technical readings are supportive of further gains.

The Fed is forecasting a solid 3.1% GDP growth rate for this year and 2.5% for next year. Growth forecast don't really begin to slow down until 2020 (2.0%), 2021 and beyond, with its long-run forecast at 1.8%. According to FactSet, "the earnings growth rate for the S&P 500 for the second quarter has improved to 24.6% today from 20.0% on June 30."

As Chairman Powell stated above, job growth remains strong. This is keeping the Unemployment Rate historically low at 3.9% as reported by the U.S. Bureau of Labor Statistics. Weekly Initial Jobless Claims, according to the U.S. Employment and Training Administration also remain in a continuing downtrend since March 2009, currently just above historic lows at 214,000 last week.

Technically speaking, market internals are constructive

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October Outlook: Midterm October Launching Pad

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with room for improvement. The Advance-Decline line is in an uptrend this year, though mixed as of late. New Highs and New Lows continue to battle it out as the market leaders are in rotation. The 50-day moving averages of the major averages remain in clear uptrends, which is supportive.

Market sentiment readings are high, but not at extremely exuberant levels that accompany market tops. Bullish advisors in the *Investor's Intelligence* Advisors Sentiment survey are at 60.6%, which is high, but well below the 66.7% level we were at last January just before the correction. And with bearish advisors at 18.3% the bull-bear spread is at 42.3%, well below January's high reading of 54.0%. Moreover, this survey began to hit these levels last October and ran for four months before the market began to correct in late January.

Furthermore, the recent new all-time high on the Dow helps to confirm the market's uptrend and the Dow Transports also reaching new highs gives us a little Dow Theory confirmation. Yes, the market still has work to do, and we have Octoberphobia to contend with yet. So be patient and watchful, but get ready for the Sweet Spot rally.

Events Calendar

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

Advisor Lunch @ Ruth's Chris Steak House in Irvine, CA
October 2 @ 1:00 pm - 2:00 pm
Hosted by: Founder & Chief Investment Officer Joseph B. Childrey

Advisor Dinner @ Ruth's Chris Steak House in Irvine, CA
October 2 @ 6:00 pm - 8:00 pm
Hosted by: Founder & Chief Investment Officer Joseph B. Childrey

Advisor Lunch @ Ruth's Chris Steak House in Del Mar, CA
October 3 @ 1:00 pm - 2:00 pm
Hosted by: Founder & Chief Investment Officer Joseph B. Childrey

Advisor Dinner @ Ruth's Chris Steak House in Del Mar, CA
October 3 @ 6:00 pm - 8:00 pm
Hosted by: Founder & Chief Investment Officer Joseph B. Childrey

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: *Improving.* October is the last month of the "Worst Six Months" for DJIA and S&P 500 and the last month of NASDAQ's "Worst Four Months". Frightful history of market crashes aside, October has been stellar in midterm years, number one month for DJIA, S&P 500, NASDAQ.

Psychological: *Frothy.* According to *Investor's Intelligence* Advisors Sentiment survey bulls are at 60.6%. Correction advisors are at 21.1% and Bearish advisors are just 18.3%. The difference between bulls and bears is at a worrisome level and has been for four of the last five weeks. The CBOE Volatility index, or VIX, is also rather subdued with readings on either side of 12 over the past week. Bullish sentiment can remain elevated and the market can continue to climb, but at some point both bullish sentiment and the market will retreat. Based upon current fundamental and technical readings any retreat is likely to be brief and could make a good buying opportunity ahead of the typically bullish fourth quarter.

Fundamental: *Firm.* Broadly speaking, economic data is solid. Atlanta Fed *GDPNow* model is currently forecasting Q3 growth of 3.8%. Employment statistics are robust with an unemployment rate of 3.9%. Housing may be in a soft patch as sales modestly dip, but prices are firm (and likely the cause of the decline). Trade and tariffs are a concern, but at current levels the impact appears manageable. Corporate earnings are robust now, but comparisons will be tougher next year.

Technical: *Consolidating.* DJIA was last to trade at a new all-time high last week. Since then, DJIA, S&P 500 and NASDAQ have all mildly retreated. Weakness near the end of Q3 is not uncommon. The rally is likely to resume once October arrives. The long-term bullish trend is still intact.

Monetary: *2.00-2.25%.* At the conclusion of its September meeting, the Fed did exacting what everyone expected. It raised the Fed funds rate by 0.25%. During the post-meeting press conference Fed Chair Powell acknowledged the currently strong economy and indicated that further rate increases were more than just likely. Unfortunately, the Feds own estimates for future growth and inflation remained rather tepid and the yield curve has only flattened further. The Fed is likely the biggest risk to the economy and the stock market at this time as too much monetary policy tightening could easily derail growth just as it has begun showing sign of accelerating.

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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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