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May Almanac: Challenging Month in Pre-Election Years

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May officially marks the beginning of the "Worst Six Months" for the DJIA and S&P. To wit: "Sell in May and go away." Our "Best Six Months Switching Strategy," created in 1986, proves that there is merit to this old trader's tale. A hypothetical $10,000 investment in the DJIA compounded to a gain of $1,008,519 for November-April in 68 years compared to just $1,031 for May-October. The same hypothetical $10,000 investment in the S&P 500 compounded to $720,389 for November-April in 68 years compared to a gain of just $10,066 for May-October.

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 what we called 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.

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

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Pre-Election Year May since 1950

	Rank[1]	Avg %	Up	Down
DJIA	10	0.1	9	8
S&P 500	10	0.2	9	8
NASDAQ*	7	1.9	7	5

[1] *Based upon the average historical monthly performance of the indices in comparison to other months of the year.*
** Since 1971*

May Vital Stats (1950-2018)

	DJIA		S&P 500		NASDAQ	
Rank[2]	9		8		5	
# Up	37		41		30	
# Down	32		28		18	
Average %	–0.0		0.3		1.1	
4-Year Presidential Election Cycle Performance by %						
Post-Election	1.3		1.7		3.4	
Mid-Term	–0.6		–0.7		–0.7	
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 2019 Bullish Days: Data 1998-2018						
	1, 2, 7, 8, 10, 30		1, 30		1, 8, 21, 29, 30	
May 2019 Bearish Days: Data 1998-2018						
	3, 6, 20, 22, 31		3, 14, 20, 22		3, 20, 22	

[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.*

May Almanac: Challenging Month in Pre-Election Years

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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, pre-election-year Mays rank poorly, #10 DJIA and S&P 500 and #7 NASDAQ.

Based upon the S&P 500, Monday before May option expiration is much stronger than expiration day itself. S&P 500 has registered only seven losses in the last thirty-one years on Monday. Expiration day is a loser nearly across the board. The full week had a bullish bias that has been fading in recent years. The week after options expiration week now favors NASDAQ. DJIA has fallen in eleven of the last twenty weeks after, while NASDAQ has been up in eleven of the last fifteen weeks after.

On Friday before Mother's Day the DJIA has gained ground sixteen of the last twenty-four years and on the Monday after (the first day of options expiration this year), the blue-chip average has also risen in seventeen of those years.

The first two days of May trade higher frequently and the S&P 500 has been up 21 of the last 29 first trading days. A bout of weakness often appears on the third, fourth and around the fifteenth trading day for large cap stocks. Generally, the first half of the month is better than the second half.

May Outlook: Market Prone to Short-Term Weakness in May

After a rough start to the "Best Six Months" with the market falling precipitously in November-December the recovery rally has put DJIA up 5.9%, S&P 500 up 8.6% and NASDAQ up 10.8% for the Best Six Months November-April from the October 31, 2018 close to the April 30, 2019 close. The history of the Best Six/Worst Six Months is impressive, though there have been off periods throughout its history. But now as the Best Six Months has come to a close at the end of April and the dreaded "Sell in May and go away" mantra is now being chanted on The Street, our strategy becomes more cautious.

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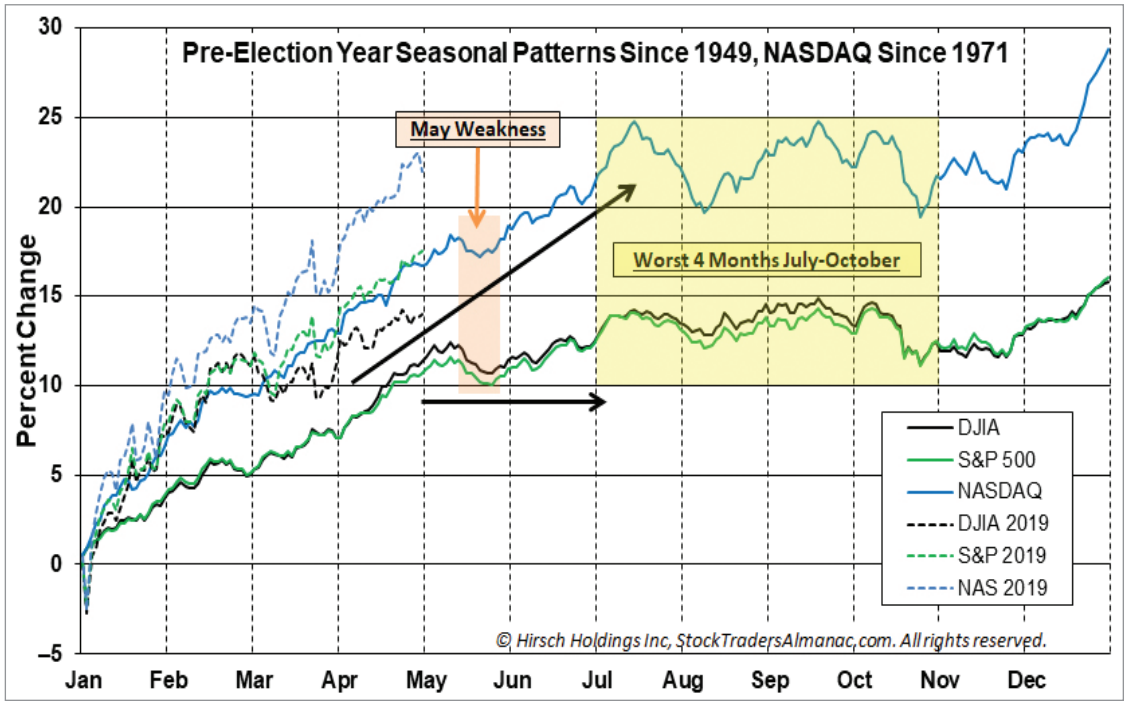

May Outlook: Market Prone to Short-Term Weakness in May

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Our overall outlook for the year remains bullish as it has been since our Annual Forecast in December that was followed by a bullish January Indicator Trifecta. The historical strength of Pre-Election Years, which has been self-evident thus far this year, is supported by resilient economic and corporate readings, a dovish Fed clearly done with raising interest rates for the time being and a White House that is supportive of Wall Street. But, as you can see in the chart of Pre-Election Year Seasonal Patterns (page 2), the Dow (black dotted line) and S&P (green dotted line) are already quite close to historical average gains for the Pre-Election year and NASDAQ is way ahead of the pace up more than 20% for 2019 to date.

> ***"S&P and NASDAQ made new all-time highs in April, but are straining to hold those levels and there is chatter in technical analysis circles about a bearish double top forming on the S&P and NASDAQ."***

Ostensibly, the S&P and NASDAQ are on the brink of clearing the last levels of resistance. But the Dow is struggling to make a new high. S&P and NASDAQ made new all-time highs in April, but are straining to hold those levels and there is chatter in technical analysis circles about a bearish double top forming on the S&P and NASDAQ. Also evident in the chart here is the weakness often experienced in the latter part of May. So while we remain bullish on the year, we do expect the market to be weaker during the mid-May soft patch and backing and filing during the Worst 4 Months July-October.

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. The Russell 2000 Index is an unmanaged composite of the bottom 2,000 stocks in the Russell 3000 Index. The Russell 3000 Index is an unmanaged composite of the 3,000 largest publicly held companies incorporated in America as measured by total market capitalization. The Russell 2000 index is widely used by professional investors as a performance benchmark for small-cap stocks.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: *Neutral.* May officially marks the beginning of the "Worst Six Months" for the DJIA and S&P. To wit: "Sell in May and go away." But NASDAQ's "Best Eight Months" last until June. In pre-election years, May can be challenging ranking #10 for DJIA and S&P 500 with fractional average gains. NASDAQ has been stronger, ranking #7 with an average advance of 1.9%.

Psychological: *Skeptical.* According to *Investor's Intelligence* Advisors Sentiment survey bulls are at 56.4%. Correction advisors are at 25.8% and Bearish advisors are 17.8%. Bullish advisors have exceeded 50% for eleven weeks straight now. However, there remain a sizeable number of advisors expecting a correction. This suggests there is just enough caution in place for the market to slowly make its way higher. Whether or not major indexes can make and hold new highs is the key point in the bull/bear debate now.

Fundamental: *Reasonably firm.* Q1 2019 GDP advanced estimate came in ahead of expectations at 3.2%. The last Atlanta Fed *GDPNow* estimate on April 25 the day before the GDP release was 2.7%. This is a significant improvement over the 1.5% that was forecast about a month ago. Unemployment is still 3.8% after the economy added 196,000 jobs in March. Initial weekly jobless claims did spike higher than expected but may have been influenced by Good Friday and Easter. Earnings have been mixed. Mega-cap technology remains strong while industrials appear stuck in the mud. The overall outlook is still positive with modest growth, low inflation and relatively low interest rates.

> ***"Q1 2019 GDP advanced estimate came in ahead of expectations at 3.2%.... The overall outlook is still positive with modest growth, low inflation and relatively low interest rates.... a period of consolidation is likely followed by further gains into yearend and possibly beyond."***

Technical: *Breaking Out?* S&P 500 and NASDAQ have logged new all-time highs. DJIA came within 150 points at its recent April 23 high. Only time will time if this was just a double top or the beginning of the next leg of a rally. As long as the outlook for the second half of 2019 and beyond continues to improve, then a period of consolidation is likely followed by further gains into yearend and possibly beyond.

Monetary: *2.25-2.50%.* Partial yield curve inversion and cooling growth estimates have put the Fed on hold. Rates are not likely to move until economic data justifies it. Higher rates are a possibility, just not that high of a probability with CME Group's *FedWatch* Tool currently forecasting a 61.7% chance of a rate *cut* at the January 2020 Fed meeting. The Fed's next meeting at the end of April is likely to be another quiet one.

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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