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October Almanac: Second Worst Month in Pre-Election Years

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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. Over the last 21 years, October's performance has been solid. Average gains in over the last 21-years range from 1.7% by the S&P 500 to 2.5% by NASDAQ.

(continued on page 2)

Inside

Pre-Election Year October since 1950

	Rank[1]	Avg %	Up	Down
DJIA	11	–0.5	9	8
S&P 500	11	0.1	9	8
NASDAQ*	11	0.1	7	5

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

October Vital Stats (1950-2018)

	DJIA		S&P 500		NASDAQ	
Rank[2]	7		7		9	
# Up	41		41		26	
# Down	28		28		22	
Average %	0.6		0.80		0.6	
4-Year Presidential Election Cycle Performance by %						
Post-Election	0.9		1.0		1.4	
Mid-Term	2.6		2.7		3.1	
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 2019 Bullish Days: Data 1998-2018						
	3, 4, 14, 16 28, 30		3, 14, 16-18, 21 23, 24, 30, 31		3, 14, 16, 23, 31	
October 2019 Bearish Days: Data 1998-2018						
	7, 11, 25		7, 11, 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.*

October Almanac: Second Worst Month in Pre-Election Years

(continued from page 1)

Pre-election year Octobers are ranked second from last for DJIA, S&P 500 and NASDAQ. Eliminating gruesome 1987 from the calculation provides only a moderate amount of relief. Should a meaningful decline materialize in October it is likely to be an excellent buying opportunity, especially for depressed technology and small-cap shares.

October Outlook: Octoberphobia Sets Up Best Six Months

Amid all the news and noise U.S. financial markets continue to track the seasonal and 4-year election cycle patterns closely as they has all year long. Our strategy that employs and utilizes seasonality is outperforming the market.

Amazingly, 2019 market price action continues to track the historical trend and pattern as you can see in the updated chart of Pre-Election Year Seasonal Patterns overlaid with 2019. On cue stocks paused at resistance below the highs in the third week of September and appear to be turning lower. This suggests 2019 will continue to move in synch with the seasonal moves depicted on the chart. So we expect support to be tested in the volatile month of October, which is the 2nd worst month in Pre-Election Years.

The negative news flow from election campaigning, impeachment proceedings, trade wars and Mideast hostilities is likely to feed into what can become the self-fulfilling prophecy of Octoberphobia so it will be important to keep our emotions in check and stick to our system.

Unfortunately, history provides little guidance on presidential impeachment proceedings. Andrew Johnson (1868) and Bill Clinton (1998) were the only

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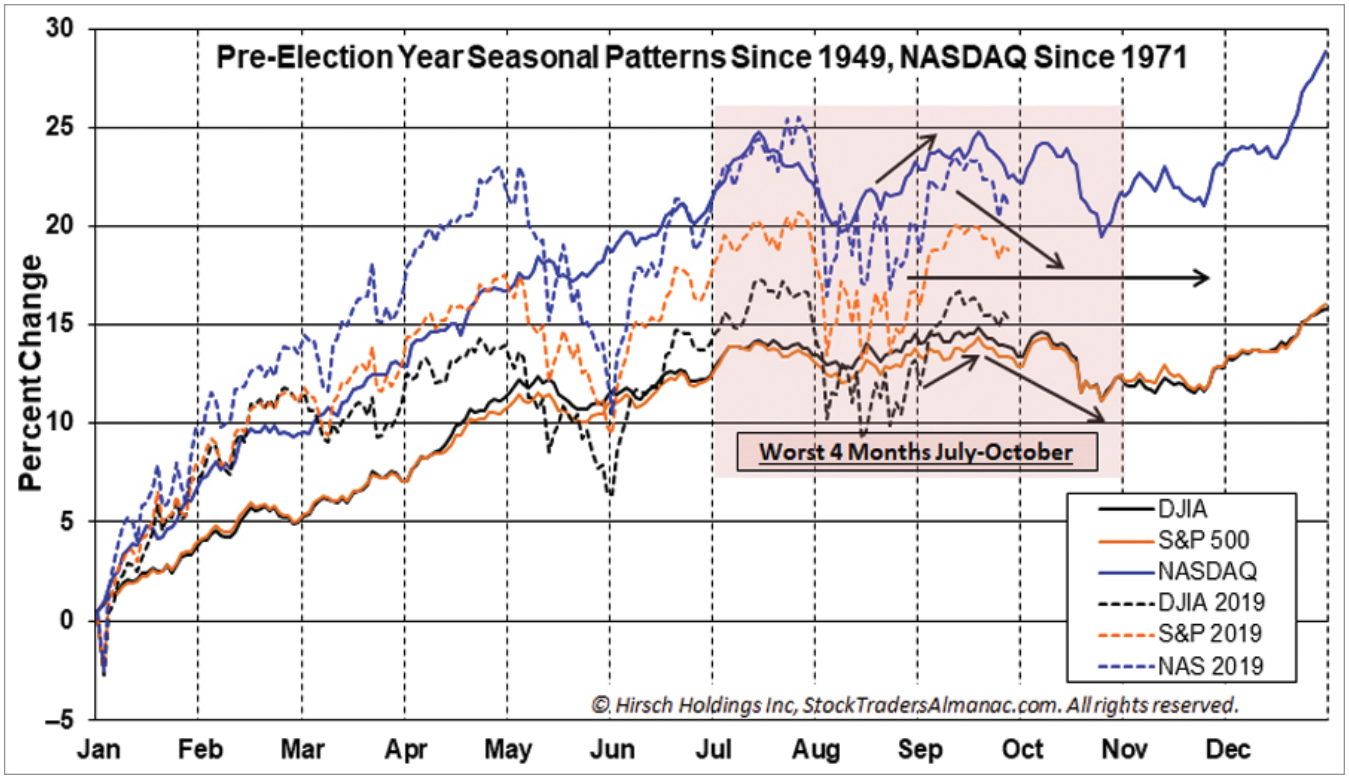

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(continued from page 2)

two presidents ever impeached and both were acquitted in the Senate trial. Richard Nixon (1974) resigned before his likely impeachment. These were the only three presidents to ever be the subject of formal impeachment charges.

We have little market data from 1868, but after Johnson's acquittal he failed to gain the nomination at the 1868 Democratic National Convention to run for president for another term. A stock market panic and recession ensued in 1869 as the country struggled through the Reconstruction. When Nixon resigned in 1974 the market was already near the end of a long bear market. The shortest bear market on record caused by the collapse of Long Term Capital Management and the global debt crisis ended on August 31, 1998 months before Clinton's impeachment.

October market volatility could test support at S&P 2815 or even down to 2725. Afterwards a rally into the end of Q4 with new highs near year end is possible.

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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: *Improving.* October is the last month of the "Worst Months" for DJIA, S&P 500 and NASDAQ. However, in pre-election years since 1951, October is the second worst month of the year.

Psychological: *Frothy.* According to *Investor's Intelligence* Advisors Sentiment survey, bulls are at 55.1%. Correction advisors are now at 28.1% and Bearish advisors are just 16.8%. The improvement in sentiment has tracked the market's rebound and is now near levels where caution should be considered. Bulls were only slightly higher at the end of July just before the market retreated.

Fundamental: *Soft.* Q2 U.S. GDP came in at 2% and the Atlanta Fed *GDPNow* model is currently forecasting 1.9% growth in the third quarter. This confirms growth is slowing. Trade tensions remain creating further uncertainty among businesses. Employment metrics remain reasonably solid which is supporting consumer confidence.

Technical: *Testing Support?* September's rally did push DJIA, S&P 500 and NASDAQ back above their respective 50-day moving averages but failed to produce new highs. NASDAQ has already slipped back below its 50-day moving average while DJIA and S&P 500 are just holding above theirs. NASDAQ could be headed toward a test of its August lows. DJIA and S&P 500 could follow if they break their respective 50-day moving averages.

"The improvement in sentiment has tracked the market's rebound and is now near levels where caution should be considered. September's rally failed to produce new highs. NASDAQ could be headed toward a test of its August lows."

Monetary: *1.75-2.00%.* Just as expected the Fed cut rates by 0.25% at its September meeting. Barring a significant degradation in economic data, the Fed could be done with cuts in 2019. According to the CME Groups *FedWatch Tool* there is just a 47% chance of a cut in October and a 67.4% cut in December which is far from certain in either month.

More Information

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