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December Almanac:
If Santa Claus Should Fail to Call, Bears May Come to Broad and Wall

By Jeffrey A. Hirsch

Chief Market Strategist

December is now the number two S&P 500 month and the third best month on the Dow Jones Industrials since 1950, averaging gains of 1.5% on each index. It's the third best month for NASDAQ since 1971. Last year DJIA suffered its worst December performance since 1931 and its fourth worst December going all the way back to 1901. However, the market rarely falls precipitously in December and a repeat of last year is not that likely. When it does it is usually a turning point in the market — near a top or bottom. If the market has experienced fantastic gains leading up to December, stocks can pullback in the first half.

In pre-election years, December's overall ranking remains about the same across the board however, average gains improve handsomely. DJIA averages 2.7%, S&P 500 2.9% and NASDAQ 4.3%. DJIA has advanced in 13 of the last 17 pre-election year Decembers. DJIA's worst pre-election December was in 2015 when it declined a modest 1.7%. DJIA's best pre-election year December was in 1991, up 9.5%.

Trading in December is holiday inspired and fueled by a buying bias throughout the month. However, the first part of the month tends to be weaker as tax-loss selling and yearend

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Pre-Election Year December since 1950

	Rank[1]	Avg %	Up	Down
DJIA	3	2.7	13	4
S&P 500	3	2.9	12	5
NASDAQ*	2	4.3	6	6

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

** Since 1971*

December Vital Stats (1950-2018)

	DJIA		S&P 500		NASDAQ	
Rank[2]	3		2		3	
# Up	48		51		28	
# Down	21		18		20	
Average %	1.5		1.50		1.6	
4-Year Presidential Election Cycle Performance by %						
Post-Election	1.0		0.6		0.9	
Mid-Term	0.9		1.2		–0.3	
Pre-Election	2.7		2.9		4.3	
Election	1.4		1.2		1.4	
Best & Worst December by %						
Best	1991	9.5	1991	11.2	1999	22.0
Worst	2018	–8.7	2018	–9.2	2002	–9.7
December Weeks by %						
Best	12/2/2011	7.0	12/2/2011	7.4	12/8/2000	10.3
Worst	12/4/1987	–7.5	12/6/1974	–7.1	12/15/2000	–9.1
December Days by %						
Best	12/26/2018	5.0	12/16/2008	5.1	12/5/2000	10.5
Worst	12/1/2008	–7.7	12/1/2008	–8.9	12/1/2008	–9.0
December 2019 Bullish Days: Data 1998-2018						
	4, 16, 20, 23, 26		10, 16, 20, 23, 26		4, 5, 10, 16 23, 26	
December 2019 Bearish Days: Data 1998-2018						
	3, 18, 31		31		18, 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.*

Inside

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portfolio restructuring begins. Regardless, December is laden with market seasonality and important events.

Small caps tend to start to outperform larger caps near the middle of the month (early January Effect) and our "Santa Claus Rally" begins on the open on Christmas Eve day and lasts until the second trading day of 2020. Average S&P 500 gains over this seven trading-day range since 1969 are a respectable 1.3%.

This is our first indicator for the market in the New Year. Years when the Santa Claus Rally (SCR) has failed to materialize are often flat or down. The last six times SCR (the last five trading days of the year and the first two trading days of the New Year) has not occurred were followed by three flat years (1994, 2004 and 2015) and two nasty bear markets (2000 and 2008) and a mild bear that ended in February 2016. As Yale Hirsch's now famous line states, "If Santa Claus should fail to call, bears may come to Broad and Wall."

December Triple Witching Week is more favorable to the S&P 500 with the entire week logging gains twenty-six times in the last thirty-five years. The week after December Triple Witching is the best of all weeks after Triple Witching for DJIA and is the only one with a clearly bullish bias, advancing in twenty-seven of the last thirty-seven years. Small caps shine especially bright with a string of bullish days that runs from December 19 to 26.

Trading the day before and the day after Christmas is generally bullish across the board with the greatest gains coming from the day before (DJIA up eight of the last twelve). On the last trading day of the year, NASDAQ has been down in fifteen of the last nineteen years after having been up twenty-nine years in a row from 1971 to 1999. DJIA and S&P 500 have also been struggling recently and exhibit a bearish bias over the last twenty-one years.

December Outlook: Santa Claus Rally and Yearend Highs

The beat rolls on. In the face of ongoing geopolitical and U.S. political volatility, machinations and all the noise, equity markets continue to march higher. While economic growth has slowed underlying strength remains evident. Market internals still have room for improvement with the Advance/Decline positive but not on the same trajectory as the indices and a dearth of new 52-week highs.

If election-cycle politics come into play, we will either get a deal in principle before the December 15 date when new tariffs are supposed to kick in or the White House will kick the can into next year and delay the new tariffs some more so they can settle on an initial agreement with the Chinese well ahead of the 2020 Presidential Election.

In any event, seasonal strength is firing on all pistons as it has been all year, pushing the market to new highs and the Dow over 28000. As is often the case we had a little pull back the week before Thanksgiving after hitting the 28000 milestone, likely triggered by comments related to delays in completing "Phase One" of the trade deal with China.

Going back to 1949 we are on pace for the 10th biggest year-to-date through November gains for the S&P 500 — and it's a healthy sign for the rest of the year and next. We crunched the numbers for the S&P 500 YTD gains as of the end of November. Average YTD November gains are 7.4%. The list below shows the Top 21 YTD November gains that are all twice the average, which we felt best represents the current situation.

Following Decembers and following years have had solid performance and average to slightly better than average results. After big YTD gains December is up 71.4% of the time with an average gain of 1.7% and the

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December Outlook: Santa Claus Rally and Yearend Highs

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S&P 500 % Change After Top 21 November YTD Gains

Year	YTD Nov	Dec	Year	Next Year
1954	38.0%	5.1%	45.0%	26.4%
1975	33.1%	– 1.2%	31.5%	19.2%
1995	31.8%	1.7%	34.1%	20.3%
1958	31.2%	5.2%	38.1%	8.5%
1980	30.2%	– 3.4%	25.8%	– 9.7%
1997	29.0%	1.6%	31.0%	26.7%
2013	26.6%	2.4%	29.6%	11.4%
1955	26.5%	– 0.1%	26.4%	2.6%
1989	24.6%	2.1%	27.3%	– 6.6%
2019	*24.0%*	**2019 YTD % Change as of 11/20/2019 close.*		
1996	22.9%	– 2.2%	20.3%	31.0%
1961	22.7%	0.3%	23.1%	– 11.8%
2009	21.3%	1.8%	23.5%	12.8%
1985	20.9%	4.5%	26.3%	14.6%
2003	20.3%	5.1%	26.4%	9.0%
1998	19.9%	5.6%	26.7%	19.5%
1983	18.3%	– 0.9%	17.3%	1.4%
2017	18.3%	1.0%	19.4%	– 6.2%
1986	18.0%	– 2.8%	14.6%	2.0%
1967	17.0%	2.6%	20.1%	7.7%
1950	16.4%	4.6%	21.8%	16.5%
1963	16.1%	2.4%	18.9%	13.0%
Average:	**24.0%**	**1.7%**	**26.1%**	**9.91%**
Median:	**22.8%**	**1.8%**	**26.3%**	**11.39%**
Max:	**38.0%**	**5.6%**	**45.0%**	**31.01%**
Min:	**16.1%**	**– 3.4%**	**14.6%**	**– 11.81%**
# Up:		**15**	**21**	**17**
# Down:		**6**	**0**	**4**

next year is up 81.0% of the time with an average gain of 9.9%. This reinforces our positive outlook for the rest of 2019 and 2020. (See chart at left.)

Fourth quarter seasonal strength is rather apparent in the updated accompanying chart of Pre-Election Year Seasonal Patterns overlaid with 2019. November 2019 has been stronger than usual, especially for a pre-election year, with DJIA up 2.7% for the month as of the 11/21/2019 close, S&P 500 up 2.2% and NASDAQ up 2.6%. (See chart on page 4.)

Tax-loss selling often kicks in the first half of December, creating a soft patch for the market early in December. This is also evident in the chart on page 4. The old "January Effect" of small caps outperforming large caps in January begins in mid-December. Then the Santa Claus Rally comes to town.

As soon as Thanksgiving comes around on the calendar — or even Halloween — all the talk on The Street is: "Will we or won't we have a Santa Claus Rally?" But they all refer to it as the 4th Quarter

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People

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Joseph B. Childrey, *Founder & CIO*

Mary C. Gray, *COO*

Jeffrey A. Hirsch, *Chief Market Strategist* Editor, *Stock Trader's Almanac*

Christopher Mistal, *Chief Compliance Officer* *Director of Research*

Independent Research Consultants

Allen Shepard, PhD, *Research Consultant*

Robert B. Ausdal, Jr., CFA, *Research Consultant*

Sidney C. Hardee, CFA, *Research Consultant*

Contact

Probabilities Fund Management, LLC
A registered investment advisor.

8 Cottage Place, 2nd Floor
White Plains, NY 10601

Office: 800-519-0438
Email: info@probabilitiesfund.com
Website: www.probabilitiesfund.com

December Outlook: Santa Claus Rally and Yearend Highs

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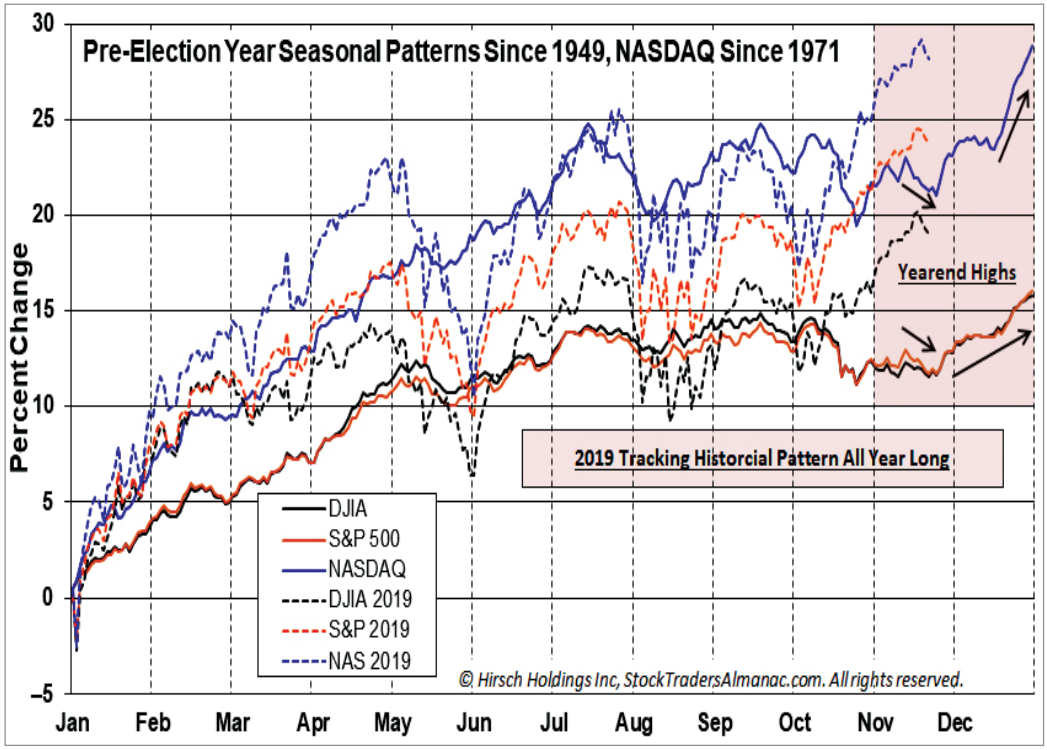
Rally or the November-December Rally or the December Rally or the Halloween-New Year's Rally or the Thanksgiving-Christmas Rally.

Yes, the market has a strong tendency to rally smartly in Q4, but that is not the Santa Claus Rally. The Santa Claus Rally was discovered and named by Yale Hirsch in 1972 and published in the *1973 Stock Trader's Almanac*. As defined by Yale and detailed on page 116 of the newly released 53rd Annual 2020 Edition:

"Santa Claus tends to come to Wall Street nearly every year, bringing a short, sweet, respectable rally within the last five days of the year and the first two in January. This has been good for an average 1.3% gain since 1969 (1.3% since 1950 as well). Santa's failure to show tends to precede bear markets, or times stocks could be purchased later in the year at much lower prices. We discovered this phenomenon in 1972."

To Wit, Yale's witty rhyme which has become the headline of our "Santa Claus Rally" page and the battle cry of market pundits during the holiday season: *"If Santa Claus Should Fail To Call, Bears May Come To Broad And Wall."*



After last year's debacle and Christmas Eve Crumble for the market, the SCR was our first confirming bullish indicator that we had reached a bottom on December 24, 2018 and that the prospects for 2019 were quite positive.

Finally Pre-election Years tend to make their highs around yearend and 2019 has been tracking this pattern to a T this year. So after a little chop between now and mid-December we expect further new highs.

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.

Market at a Glance

Fundamental: *Mixed.* U.S. labor market remains quite firm with unemployment at just 3.6% and 128,000 net new jobs added in October. A firm labor market should continue to support consumers. Q4 U.S. GDP is not currently looking great. Atlanta Fed's *GDPNow* model is forecasting a mere 0.4%. Trade remains unresolved and impeachment hearings are in progress. Q3 corporate earnings and revenue were better than expected suggesting Q4 could still be better than currently anticipated.

Technical: *Consolidating.* After breaking out to new all-time highs earlier this month, DJIA, S&P 500 and NASDAQ have paused to digest gains and evaluate the latest trade-related headlines. Technical indicators that were at or near overbought levels have begun to ease confirming the pause. The pause/retreat is likely to be brief in duration and magnitude and good be an opportunity to add to existing long positions or to establish new long positions.

Monetary: *1.50-1.75%.* The Fed signaled they were most likely done cutting rates (for now). Although they are expanding their balance sheet again (QE4) and stand ready to act further, if needed, to support the economy. According to CME Group *FedWatch Tool*, there is a 0% probability of a cut at the Fed's next meeting in December. Nonetheless, rates are low here, even lower elsewhere which has historically been positive for stocks.

Seasonal: *Bullish.* December is now the number two S&P 500 month and the third best month for DJIA since 1950, averaging gains of 1.5% on each index. It's the third best for NASDAQ since 1971. The "January Effect" of small-cap outperformance starts in mid-December. Santa's Rally begins on Tuesday December 24 and lasts until the second trading day of the New Year. In years when Santa Claus did not come to Wall Street, bear markets or sizable corrections have often materialized in the coming year.

Psychological: *Holiday cheer.* According to *Investor's Intelligence* Advisors Sentiment survey bulls are at 57.2%. Correction advisors are at 25.7% and Bearish advisors are 17.1%. Bullish % has actually receded ever so slightly from prior readings but is still elevated. New all-time highs, bullish yearend seasonality and upcoming holidays typically cause high levels of bullish sentiment now and often well into the New Year. Only a major change, sharply higher or lower, would be concerning.

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