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January Almanac: Not as Strong in Election Years

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January has quite a reputation on Wall Street as an influx of cash from yearend bonuses and annual allocations typically propels stocks higher. January ranks #1 for NASDAQ (since 1971), but fifth on the S&P 500 and sixth for DJIA since 1950. It is the end of the best three-month span and holds a full docket of indicators and seasonalities.

DJIA and S&P rankings did slip from 2000 to 2016 as both indices suffered losses in ten of those seventeen Januarys with three in a row, 2008, 2009 and 2010 and then again in 2014 to 2016. January 2009 has the dubious honor of being the worst January on record for DJIA (-8.8%) and S&P 500 (-8.6%) since 1901 and 1931 respectively. Last year, January was downright stellar after the worst December since 1931 for DJIA and S&P 500.

In election years, Januarys have been weaker. DJIA and S&P 500 slip to number #8 while DJIA average performance dips negative. NASDAQ slips to #3, but average performance remains respectable at 1.7%.

On pages 110 and 112 of the *Stock Trader's Almanac 2020* we illustrate that the January Effect, where small caps begin to outperform large caps, actually starts in

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Election Year January since 1950

	Rank[1]	Avg %	Up	Down
DJIA	8	–0.01	10	7
S&P 500	8	0.2	9	8
NASDAQ*	3	1.7	8	4

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

** Since 1971*

January Vital Stats (1950-2019)

	DJIA		S&P 500		NASDAQ	
Rank[2]	6		5		1	
# Up	45		43		32	
# Down	25		27		17	
Average %	1.0		1.1		2.8	
4-Year Presidential Election Cycle Performance by %						
Post-Election	0.6		0.8		2.3	
Mid-Term	–0.5		–0.7		0.0	
Pre-Election	3.9		4.1		6.8	
Election	–0.01		0.2		1.7	
Best & Worst January by %						
Best	1976	14.4	1987	13.2	1975	16.6
Worst	2009	–8.8	2009	–8.6	2008	–9.9
January Weeks by %						
Best	1/9/1976	6.1	1/2/2009	6.8	1/12/2001	9.1
Worst	1/8/2016	–6.2	1/8/2016	–6.0	1/28/2000	–8.2
January Days by %						
Best	1/17/1991	4.6	1/3/2001	5.0	1/3/2001	14.2
Worst	1/8/1988	–6.9	1/8/1988	–6.8	1/2/2001	–7.2
January 2019 Bullish Days: Data 1999-2019						
	2, 3, 27, 28		6, 9, 10, 16 23, 27		2, 8-10, 16 24, 28	
January 2019 Bearish Days: Data 1999-2019						
	8, 17, 22		13		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.*

Inside

January Almanac: Not as Strong in Election Years

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mid-December. Early signs of the January Effect can be seen when comparing Russell 2000 to S&P 500 since December 16. The majority of small-cap outperformance is normally done by mid-February, but strength can last until mid-May when indices typically reach a seasonal high.

The first indicator to register a reading in January is the *Santa Claus Rally*. The seven-trading day period began on the open on December 24 and ends with the close of trading on January 3. Normally, the S&P 500 posts an average gain of 1.3%. The failure of stocks to rally during this time tends to precede bear markets or times when stocks could be purchased at lower prices later in the year.

On January 8, our First Five Days "Early Warning" System will be in. In presidential election years this indicator has a solid record. In the last 17 presidential election years 14 full years followed the direction of the First Five Days. The full-month January Barometer has a slightly softer record in presidential-election years with 12 of the last 17 full years following January's direction.

Our flagship indicator, the January Barometer created by Yale Hirsch in 1972, simply states that as the S&P goes in January so goes the year. It came into effect in 1934 after the Twentieth Amendment moved the date that new Congresses convene to the first week of January and Presidential inaugurations to January 20.

The long-term record has been stupendous, an 85.5% accuracy rate, with only ten major errors in 69 years. Major errors occurred in the secular bear market years of 1966, 1968, 1982, 2001, 2003, 2009, 2010 and 2014 and again in 2016 as a mini bear came to an end. The tenth and most recent error was in 2018 as a hawkish Fed continued to hike rates even as economic growth slowed and longer-term interest rates fell. The market's position on January 31 will give us a good read on the year to come. When all three of these indicators are in agreement it has been prudent to heed their call.

2020 Forecast:
Market Sanguine on Impeachment and Sitting President Running

The House of Representatives impeached President Trump December 18, but is holding off sending the articles of impeachment to the Senate until they define the rules of engagement for the Senate trial. Meanwhile the stock market rallied to new all-time highs across the board. Senate republican leadership has made it clear they are not on a trajectory to remove the president from office. The market remains sanguine as the likelihood of the president's removal from office appears low. So we have sitting president running for reelection with mountains of cash, and an apparently reunified Republican Party rallying around the president.

The day after the impeachment the House passed Trump's USMCA trade agreement between the USA, Mexico and Canada. Ratification of the USMCA is pending approval of the U.S. Senate and Canadian Parliament in 2020. Across the pond Boris Johnson recently won the latest general election handily, so the UK finally appears headed toward the long awaited smooth and soft Brexit by January 31. Trade is improving with the Phase 1 trade deal with China nearing completion as both China the US have been announcing concessions and details.

The Fed is on hold, but ready to act and already has QE lite underway as it keeps the treasury repo markets flush with liquidity. Weak earnings and high valuations represent the best reason for a mild pullback, mid-January perhaps or just ahead of next earnings season. Risks remain, mostly on the trade and earnings/valuation fronts, but uncertainty appears to be

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2020 Forecast:
Market Sanguine on Impeachment and Sitting President Running

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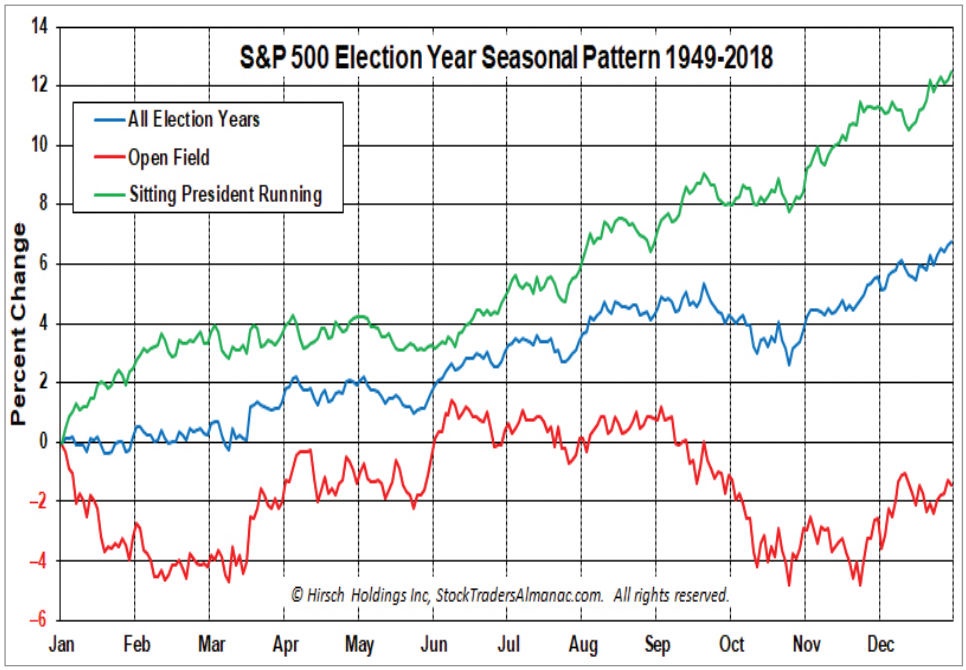
trending lower. Growth is soft, but not zero or negative. Trade deals are moving forward and we have an easy Fed ready to act. Declining uncertainty supports a bullish outlook for 2020.

Election Years are generally positive years with the S&P 500 gaining 6.7% on average, but much stronger when a sitting president is running for reelection averaging 12.5% vs. a loss of -1.5% when no sitting president is running.



Four Horseman of the Economy

DJIA along with S&P 500 and NASDAQ have been leading the pack all year long. We have just logged new highs in prototypical Pre-Election Year fashion. Save any major setbacks on the trade, earnings, election or geopolitical fronts gains are likely to trend higher, except for a mild correction.

Consumer confidence remains positive though it has been flattening out over the past five years. Continuing progress on trade deals and Brexit, plus an easy Fed and more stable and functional federal government should help to improve consumer confidence in 2020.

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Four Horseman of the Economy

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The Unemployment Rate continues to remain super low at 3.5%. Economic activity may have decelerated some, but it remains solid and prices remain stable. Even more jobs are on the near-term horizon as Census 2020 hiring and 2020 election campaign hiring ramps up. We have seen the mailings for how to apply for a census job.

Our inflation horseman as measured by our 6-month exponential moving average calculations on the CPI and PPI have been in retreat, especially the PPI which has gone negative — likely the underlying reason the Fed lowered rates three times this year. CPI is now below the Fed's target inflation rate of 2% at 1.88%. If negative PPI trickles into CPI we would not be surprised if Fed cut rates again. The Fed is terrified of sub 2% inflation. But with all the government hiring and deficit spending we don't see a recession likely in 2020.

"CPI is now below the Fed's target inflation rate of 2% at 1.88%. If negative PPI trickles into CPI we would not be surprised if Fed cut rates again. The Fed is terrified of sub 2% inflation."

2020 Forecast

- **Worst Case** — Correction, but no bear in 2020. Flat to single digit loss for full year due to on-going unresolved trade deals, no improvement in earnings and growth weakens further. Trump is removed from office by the Senate, resigns or does not run and political uncertainty spikes.
- **Base Case** — Average election year gains. Incumbent victory, trade and growth remain muddled, modest improvement in corporate earnings and Fed stays neutral to accommodative. 5-10% gains for DJIA, S&P 500 and NASDAQ.
- **Best Case** — Above average gains. Incumbent victory, trade resolved, growth improves, earnings improve and Fed stays neutral and accommodative. 7-12% for DJIA, 12-17% for S&P 500 and 17-25% for NASDAQ.

We will be keeping you fully abreast of all readings from our three January Trifecta Indicators: Santa Claus Rally, First Five Days and the full-month January Barometer and will make adjustments on the close of January 2020.

Happy New Year, we wish you all a healthy and prosperous 2020!

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

Seasonal: *Bullish.* January is the third month of the Best Six/Eight, but it is the last of the Best-Three-Consecutive-month span. January is the top month for NASDAQ (since 1971) averaging 2.7%, but it has slipped to sixth for DJIA and S&P 500 since 1950. Election-year Januarys have been weaker (DJIA -0.01%, S&P 500 +0.2% NASDAQ +1.7%). The Santa Claus Rally ends on January 3rd and the First Five Days early-warning system ends on the 8th. Both indicators provide an early indication of what to expect in 2020. We will wait until the official results of the January Barometer on January 31 are in before tweaking our 2020 Annual Forecast.

Fundamental: *Improving.* U.S. labor market remains firm with unemployment declining to 3.5% and 266,000 net new jobs added in November. A firm labor market should continue to support consumers. Estimates of Q4 U.S. GDP are improving. Atlanta Fed's *GDPNow* model is forecasting 2.3%. Trade outlook also appears to be improving with a Phase 1 deal with China and USMCA advancing through Congress. Corporate earnings are also forecast to improve in 2020.

Technical: *Breaking Out.* After a brief early December pause, DJIA, S&P 500 and NASDAQ all hit new all-time highs. Small caps, measured by the Russell 2000 have not traded at new highs yet, but appear to be on course to do so after finally breaking through resistance right around May's high close.

> ***"The Fed left rates alone and confirmed that is where rates are likely to remain, for now. QE4, Fed balance sheet expansion, also continues in 2020. Low rates and an expanding Fed balance sheet have proven to be bullish for stocks."***

Monetary: *1.50-1.75%.* At the last scheduled meeting of the decade, the Fed left rates alone and confirmed that is where rates are likely to remain, for now. QE4, Fed balance sheet expansion, also continues in 2020. Low rates and an expanding Fed balance sheet have proven to be bullish for stocks. It would be surprising if this time was any different.

Psychological: *Holiday cheer.* According to Investor's Intelligence Advisors Sentiment survey bulls are at 57.7%. Correction advisors are at 25.0% and Bearish advisors are 17.3%. New all-time highs, bullish yearend seasonality and the holiday season typically cause high levels of bullish sentiment from now until well into the New Year.

More Information

For more information about our strategies, products and services, including updated fact sheets, performance summary reports and prospectuses, visit our website: **http://www.probabilitiesfund.com** or call Advisor Services today at **(800) 519-0438**.

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