SEASONAL STRATEGIST
MONTHLY STOCK MARKET UPDATES

PROBABILITIES
FUND MANAGEMENT, LLC

Volume 6, Issue 7 | Published by Probabilities Fund Management, LLC | July 2020

July Almanac: Not Much Sizzle in Election Years

By Jeffrey A. Hirsch, Chief Market Strategist

July historically is the best performing month of the third quarter however, the mostly negative results in August and September tend to make the comparison easy. Two "hot" Julys in 2009 and 2010 where DJIA and S&P 500 both gained greater than 6% and a strong performance in 2013 and 2018 have boosted July's average gains since 1950 to 1.2% and 1.1% respectively. Such strength inevitability stirs talk of a "summer rally", but beware the hype, as it has historically been the weakest rally of all seasons (page 74, *Stock Trader's Almanac 2020*).

July begins NASDAQ's worst four months and is the third weakest performing NASDAQ month since 1971, posting a 0.5% average gain. Dynamic trading often accompanies the first full month of summer as the beginning of the second half of the year brings an inflow of new capital. This creates a bullish beginning, a soft week after options expiration and some strength towards the end.

July's first trading day is the third best performing first trading day of all twelve months with DJIA gaining a cumulative 1293.21 points since 1998. Over the past 21 years, DJIA's first trading day of July has produced gains 81.0% of the time with an average advance of 0.39%. S&P 500 has advanced 85.7% of the time (average gain 0.38%). NASDAQ has been slightly weaker at 76.2% (0.26% average gain). No other day of the year exhibits this amount of across-the-board strength which makes a case for declaring the first trading day of July the most consistently bullish day of the year over the past 21 years.

Trading on the day before and after the Independence Day holiday is often lackluster. Volume tends to decline on either side of the holiday as vacations begin early and/or finish late. Since 1980, DJIA, S&P 500, NASDAQ and Russell 2000 have recorded net losses on the day after.

Election year Julys rank in the bottom half of all election year months. DJIA: 0.5%, 6th worst; S&P 0.4% 6th worst; NASDAQ (since 1972): -0.7% 3rd worst; Russell 2000 (since 1980): -0.2% 3rd worst.

Election Year July since 1950

	Rank[1]	Avg %	Up	Down
DJIA	7	0.5	9	8
S&P 500	7	0.4	8	9
NASDAQ*	10	–0.7	6	6

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

July Vital Stats (1950-2019)

	DJIA		S&P 500		NASDAQ	
Rank[2]	4		6		10	
# Up	45		40		27	
# Down	25		30		22	
Average %	1.2		1.1		0.5	
4-Year Presidential Election Cycle Performance by %						
Post-Election	2.2		2.1		3.4	
Mid-Term	1.3		0.9		–1.9	
Pre-Election	1.0		0.9		1.0	
Election	0.5		0.4		–0.7	
Best & Worst July by %						
Best	1989	9.0	1989	8.8	1997	10.5
Worst	1969	–6.6	2002	–7.9	2002	–9.2
July Weeks by %						
Best	7/17/2009	7.3	7/17/2009	7	7/17/2009	7.4
Worst	7/19/2002	-7.7	7/19/2002	-8	7/28/2000	-10.5
July Days by %						
Best	7/24/2002	6.4	7/24/2002	5.7	7/29/2002	5.8
Worst	7/19/2002	–4.6	7/19/2002	–3.8	7/28/2000	–4.7
July 2020 Bullish Days: Data 1999-2019						
	1, 7, 9, 13, 14, 20		1, 6, 7, 9, 13 14, 20		1, 7, 9, 13, 14 20, 28	
July 2020 Bearish Days: Data 1999-2019						
	2, 21, 24, 30, 31		2, 15, 21, 29		2, 21, 29, 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

July Outlook: Climbing COVID Cases Threaten Rally

Climbing COVID cases and confusion about reopening the economy continues to confound the market. Even though hard working people and prudent businesses around the country are working diligently to reopen and safely serve clients and customers the increase in positive tests and hospitalization nationally is hard for the market to ignore.

Waiters are reminding diners to done their masks when ordering. Folks are waiting for the next elevator and not crowding in and business have hand sanitizer at the ready for all patrons. But many states are now pausing or reversing their reopening plan and new case rates and hospitalizations are rising to record levels in at least 16 states.

Nevertheless, the spread and uncertainty continue to make the market vulnerable to negative developments on the pandemic, economic and geopolitical fronts. Valuations are high. Technical chart resistance has become more prevalent and the incumbent president and party are on the ropes against the virus and civic unrest.

Our NASDAQ Best Eight Months Seasonal MACD Sell Signal triggered on June 11, so we are in full "Worst Four Months" defensive mode. But there are still a few seasonal bright spots in July. July is the best month of the third quarter though most of July's gains usually occur in the first half and then we have the August/September disaster area where the market is often weak as folks are preoccupied with outdoor activities in August and end-of-Q3 portfolio restructuring in September.

NASDAQ 12-DAY MIDYEAR RALLY

	June Close	4th Last June Trading Day	9th July Trading Day	July Close	12-Day % Change	July Change
1985	296.20	292.30	302.39	301.29	3.5 %	1.7 %
1986	405.51	402.22	384.80	371.37	– 4.3	– 8.4
1987	424.67	427.20	431.14	434.93	0.9	2.4
1988	394.66	389.00	394.67	387.33	1.5	– 1.9
1989	435.29	448.55	448.90	453.84	0.1	4.3
1990	462.29	455.38	468.44	438.24	2.9	– 5.2
1991	475.92	473.30	492.71	502.04	4.1	5.5
1992	563.60	548.20	575.21	580.83	4.9	3.1
1993	703.95	694.81	712.49	704.70	2.5	0.1
1994	705.96	702.68	721.56	722.16	2.7	2.3
1995	933.45	919.56	999.33	1001.21	8.7	7.3
1996	1185.02	1172.58	1103.49	1080.59	– 5.9	– 8.8
1997	1442.07	1446.24	1523.88	1593.81	5.4	10.5
1998	1894.74	1863.25	1968.41	1872.39	5.6	– 1.2
1999	2686.12	2552.65	2818.13	2638.49	10.4	– 1.8
2000	3966.11	3858.96	4246.18	3766.99	10.0	– 5.0
2001	2160.54	2064.62	2084.79	2027.13	1.0	– 6.2
2002	1463.21	1423.99	1373.50	1328.26	– 3.5	– 9.2
2003	1622.80	1602.66	1754.82	1735.02	9.5	6.9
2004	2047.79	2025.47	1914.88	1887.36	– 5.5	– 7.8
2005	2056.96	2045.20	2152.82	2184.83	5.3	6.2
2006	2172.09	2100.25	2037.35	2091.47	– 3.0	– 3.7
2007	2603.23	2574.16	2707.00	2545.57	5.2	– 2.2
2008	2292.98	2401.26	2212.87	2325.55	– 7.8	1.4
2009	1835.04	1829.54	1799.73	1978.50	– 1.6	7.8
2010	2109.24	2223.48	2249.84	2254.70	1.2	6.9
2011	2773.52	2688.28	2796.92	2756.39	4.0	– 0.6
2012	2935.05	2854.06	2908.47	2939.52	1.9	0.2
2013	3403.25	3347.89	3600.08	3626.37	7.5	6.6
2014	4408.18	4379.76	4440.42	4485.93	1.4	1.8
2015	4986.87	5112.19	5104.89	5128.28	– 0.1	2.8
2016	4842.67	4594.44	5034.06	5162.13	9.6	6.6
2017	6140.42	6146.62	6312.47	6348.12	2.7	3.4
2018	7510.30	7561.63	7825.98	7671.79	3.5	2.2
2019	8006.24	7884.72	8244.14	8175.42	4.6	2.1
				Average:	**2.5 %**	**0.9 %**
				Median:	**2.7 %**	**1.8 %**
				Up:	**27**	**22**
				Down:	**8**	**13**

NASDAQ's mid-year rally over the 12-day period starting with the last three trading days of June through the ninth trading day of July, what we affectionately refer to as "Christmas in July," has been up 27 of the last 35 years and the past nine out of ten years with an average gain over the 35-year stretch of 2.5% vs. 0.9% for the month of July as a whole.

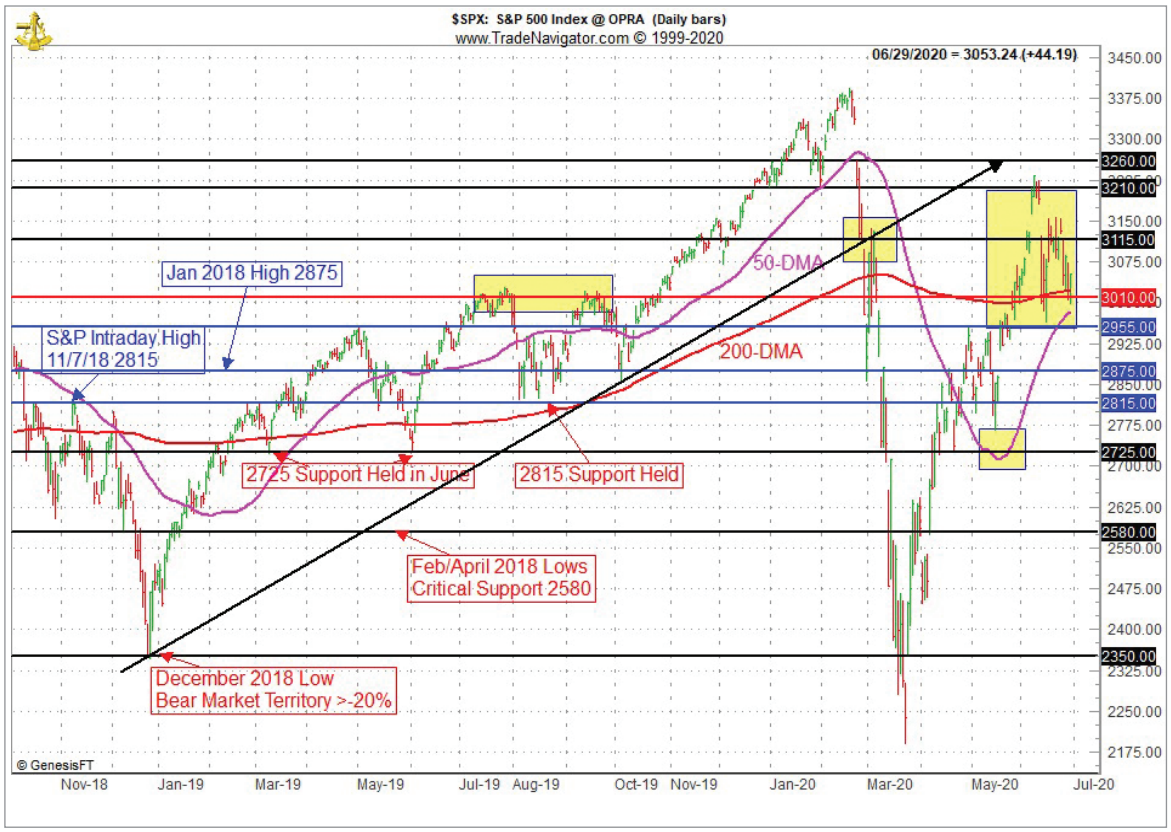
After the mid-year rally we are concerned that recent market resistance will become formidable again and support will be tested. Early in June S&P 500 stalled at our 3210 level, which is just below the intraday low on January 31 when we had the first major COVID scare selloff and the gap-down day on February 24. Then we found support near our 2955 level associated with several touch points and is just below the pink 50-day moving average.

S&P 3010 is an important level at the July and September 2019 highs. 3010 is also just below the 200-day moving average. 3115 is where the big waterfall decline broke below the long uptrend line from the December 2018 low. A range in the 2955-3210 seems to be materializing, but 3115 is still putting up resistance with 3010 serving as short term support at the moment. If 2955 does not hold as support, the next major support level is 2725 where the 50-day moving average turned higher back in May.

(continued on page 3)

July Outlook: Climbing COVID Cases Threaten Rally

(continued from page 2)



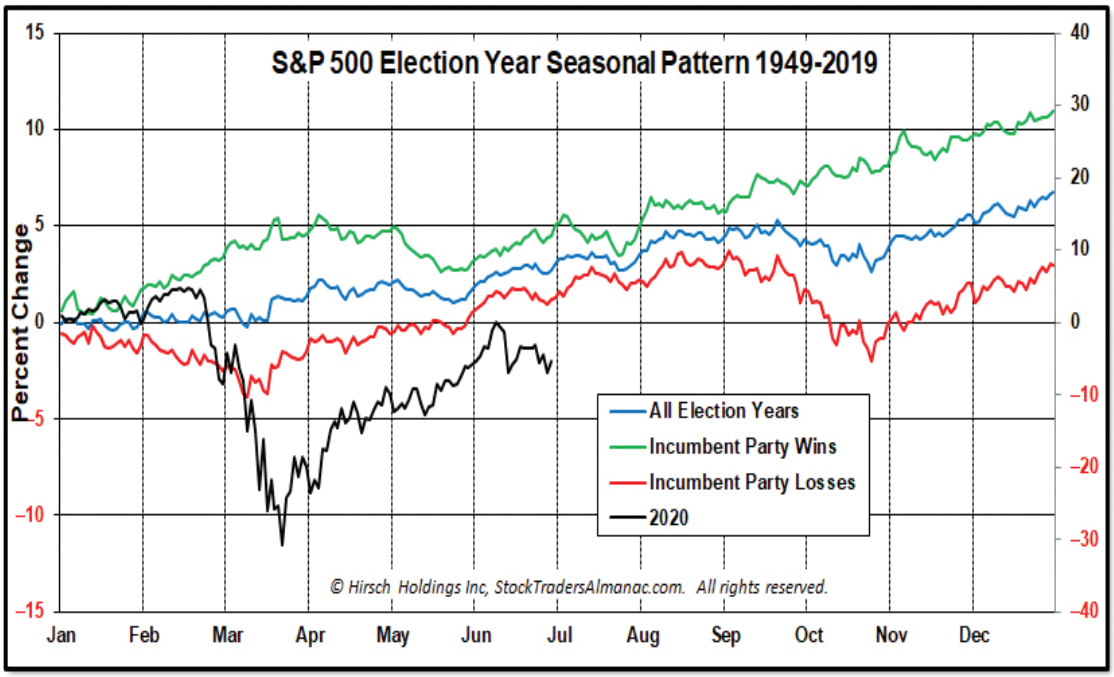
losses line more closely.

We will also be keeping an eye on our good friend Sam Stovall's, Chief Investment Strategist at CFRA, rather reliable "Presidential Predictor" indicator (see page 26 of the *2020 Almanac*). When the S&P 500 is up from July 31 to October 31 during presidential election years the incumbent party retains power 11 of the 13 election years or 85% of the time since 1936. Losses for the S&P 500 over this 3-month span, just before the election, have seen a shift in party control in 7 of the 8 years for an 88% success rate.

Even if the market signals a possible incumbent defeat by declining from August through the end of October it is still likely to rally to yearend. For now, remain patient and cautious as the market works its through the "Worst Four Months" and the summer doldrums.

On the Election Cycle front things are still concerning. While the market has historically performed better when a sitting president is running for reelection, this year may be flashing an incumbent party defeat warning, which does not bode well for the next few months or the year as a whole.

In the chart here we have plotted the one-year seasonal chart patterns for the S&P 500 during election years for 1949-2019 overlaid with 2020 year-to-date performance. Due to the magnitude of 2020's bear market decline we have plotted it on the right scale in order to illustrate the trend comparison to election years during the 1949-2019-period versus incumbent party wins and losses. As you can see 2020 is tracking the trend of the red incumbent party



Market at a Glance

Seasonal: *Neutral.* July is the best month of the third quarter, but bulk of gains are in first half of month. July is historically weaker in election years. NASDAQ's midyear rally lasts until July 14 this year. July is the first month of NASDAQ's "Worst Four Months" and the third month of DJIA & S&P 500 "Worst Six Months."

Fundamental: *Fuzzy.* Weekly jobless claims are still running in the millions even as the economy is broadly reopening. Q2 GDP is estimated to have fallen 46.6% according to the Atlanta Fed's *GDPNow* model. Despite these numbers, the worst is most likely over. That's the good news. The bad news is the economic recovery is not likely going to be as quick as the market's rebound. Covid-19 is still spreading and still impacting the economy.

Technical: *Divergent?* NASDAQ trading at new all-time highs while DJIA and S&P 500 struggle. This time the divergence is indicative of the overall economy. Some areas have held up nicely and even flourished while other areas are still on life support. As the economy mends the divide is likely to close. Until that time additional gains could be limited, and the major indexes could find themselves range-bound.

"Some areas have held up nicely and even flourished while other areas are still on life support. As the economy mends the divide is likely to close. Until that time additional gains could be limited, and the major indexes could find themselves range-bound."

Monetary: *0 – 0.25%.* At its June meeting the Fed reaffirmed its commitment to using its full range of monetary policy tools to support the U.S. economy. The nearest the Fed got to surprising its followers was in its Summary of Economic Projections material were its median and central tendency for Fed funds was projected to remain near zero through 2022. Expectations of a "v-shaped" economic recovery don't fit that projection well.

Psychological: *Disconnected.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors are up to 57.3%. Correction advisors stand at 24.3% while Bearish advisors have slipped to 18.4%. Shortest bear market in history, unprecedented amounts of fiscal and monetary stimulus are key reasons to be bullish. What if the Fed's projections are right and the economy doesn't sharply rebound? What about spiking covid-19 cases? Markets appear priced for the best case scenario while paying little attention to anything else.

People

Management Team

Joseph B. Childrey, *Founder & CIO*

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

Mary C. Gray, *Marketing Director*

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.
200 Mamaroneck Ave, Suite 300
White Plains, NY 10601
Office: 800-519-0438
Email: info@probabilitiesfund.com
Website: www.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. 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. The Wilshire 5000 is a market-capitalization-weighted index of the market value of all US-stocks actively traded in the United States. As of December 31, 2019, the index contained only 3,473 components. The index is intended to measure the performance of most publicly traded companies headquartered in the United States, with readily available price data. Past performance does not guarantee future results.

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**.