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October 2020 Almanac: Worst Month of Election Year

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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 percentage terms. March 2020 now holds the dubious honor of producing the worst, second and third worst DJIA weekly point declines. 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 over the last 21-years range from 1.4% by S&P 500 to 2.3% by NASDAQ. Small caps have still struggled though, with Russell 2000 gaining a modest 0.5%

Election-year Octobers rank dead last for Dow, S&P 500 (since 1952), NASDAQ (since 1972), and Russell 2000 (since 1980). Eliminating gruesome 2008 from the calculation provides a moderate amount of relief, as rankings climb to mid-pack. Should a meaningful decline materialize in October it might present a buying opportunity, especially for any depressed technology and small-cap shares.

Another interesting aspect of election-year Octobers is the

(continued on page 2)

Election Year October since 1950

	Rank[1]	Avg %	Up	Down
DJIA	12	–0.8	8	9
S&P 500	12	–0.7	9	8
NASDAQ*	12	–2.1	4	8

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

October Vital Stats (1950-2019)

	DJIA	S&P 500	NASDAQ
Rank[2]	7	7	9
# Up	42	42	27
# Down	28	28	22
Average %	0.6	0.8	0.7
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	–0.4	0.2	0.3
Election	–0.8	–0.7	–2.10
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 2020 Bullish Days: Data 1999-2019			
	5, 6, 14, 27, 29	5, 6, 14, 16, 19 22, 23, 29	5, 14, 22
October 2020 Bearish Days: Data 1999-2019			
	7, 13, 21	7, 26	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.*

Inside

October 2020 Almanac: Worst Month of Election Year

(continued from page 1)

propensity for S&P 500 gains when the incumbent party ultimately retains the White House. Of the ten incumbent victories since 1944, the S&P 500 has advanced seven times, declined twice, and was unchanged in 1944 with an average October gain of 1.4%. Of the nine occurrences since 1944 when the incumbent was defeated, there were six S&P 500 declines and three advances in October. The average October decline when incumbents were defeated was 2.1%. Even excluding the S&P's 16.9% plunge in 2008, incumbent defeats were still preceded by an average October loss of 0.3%.

Options expiration week in October provides plenty of opportunity. On the Monday before expiration the DJIA has only been down ten times since 1980 and the Russell 2000 is up twenty-two of the last thirty years, seventeen straight from 1990 to 2006. Expiration day has a spotty record as does the week as a whole. After a market bottom in October, the week after is most bullish, otherwise it is susceptible to downdrafts.

October is also the end of the Dow and S&P 500 "Worst 6 Months" and NASDAQ "Worst 4 Months". Remain attentive for our Seasonal Buy Signal that can occur anytime beginning October 1.

Monthly S&P 500 % Changes in Election Years

Year	October	November	December
Incumbents Win			
1944	N/C	0.4	3.5
1948	6.8	–10.8	3.1
1956	0.5	–1.1	3.5
1964	0.8	–0.5	0.4
1972	0.9	4.6	1.2
1984	–0.01	–1.5	2.2
1988	2.6	–1.9	1.5
1996	2.6	7.3	–2.2
2004	1.4	3.9	3.2
2012	–2.0	0.3	0.7
Totals	**13.6**	**0.7**	**17.1**
Average	**1.4**	**0.07**	**1.7**
Incumbents Lose			
1952	–0.1	4.6	3.5
1960	–0.2	4.0	4.6
1968	0.7	4.8	–4.2
1976	–2.2	–0.8	5.2
1980	1.6	10.2	–3.4
1992	0.2	3.0	1.0
2000	–0.5	–8.0	0.4
2008	–16.9	–7.5	0.8
2016	–1.9	3.4	1.8
Totals	**–19.3**	**13.7**	**9.7**
Average	**–2.1**	**1.5**	**1.1**

October Outlook: Seasonals Are Back In Style Again

Stock market seasonality has clearly been turned on its head this year. S&P 500 was down -4.1% during the Best Six Months (November-April) from October 31, 2019 to April 30, 2020, while it has been up 14.5% so far during the Worst Six Months (May-October) from April 30, 2020 through the close on September 29, 2020. However, with S&P 500 down -4.7% for September to date it appears seasonals are back in style again.

The typical end-of-September weakness is priming a constructive set up for our next Best Six & Eight Months Seasonal MACD Buy signal. October is the last month of the Worst Six Months and Worst Four Months. So it is time to begin preparing for our Tactical Seasonal Switching Strategy Best Six/Eight Months MACD Buy Signal. It can come any time on or after October 1.

October is also the first month of the majority of the sector seasonalities in the *Stock Trader's Almanac* on pages 92, 94 and 96. Every year while preparing the annual *Almanac*, we revisit and analyze our seasonal sector trades in depth in order to make adjustments for any new or developing trends. Years of sector research allows us to specify whether the seasonality starts or finishes in the beginning third (B), middle third (M) or last third (E) of the month based upon the number of trading days in the month.

Seasonality Lives

We feel that there is no denying that market seasonality has not worked so well this year. But we believe we have been here before and history is on our side. Over the long term, intermediate term and short term market seasonality has suffered brief periods when seasonality was overridden by more powerful forces. The COVID pandemic and economic shutdown certainly qualifies. We have seen it is only a matter of time until repetitive human behavior patterns reemerge and people and institutions return to moving money around in the usual daily, weekly, monthly, quarterly and seasonal patterns.

The return of perennial September weakness is emblematic of a return to normal market behavior and a reflection of the fact that despite the continuing concerns about surges in coronavirus cases life is beginning to return to normal. Our kids are beginning hybrid learning, playing rugby, lacrosse

(continued on page 3)

October Outlook: Seasonals Are Back In Style Again

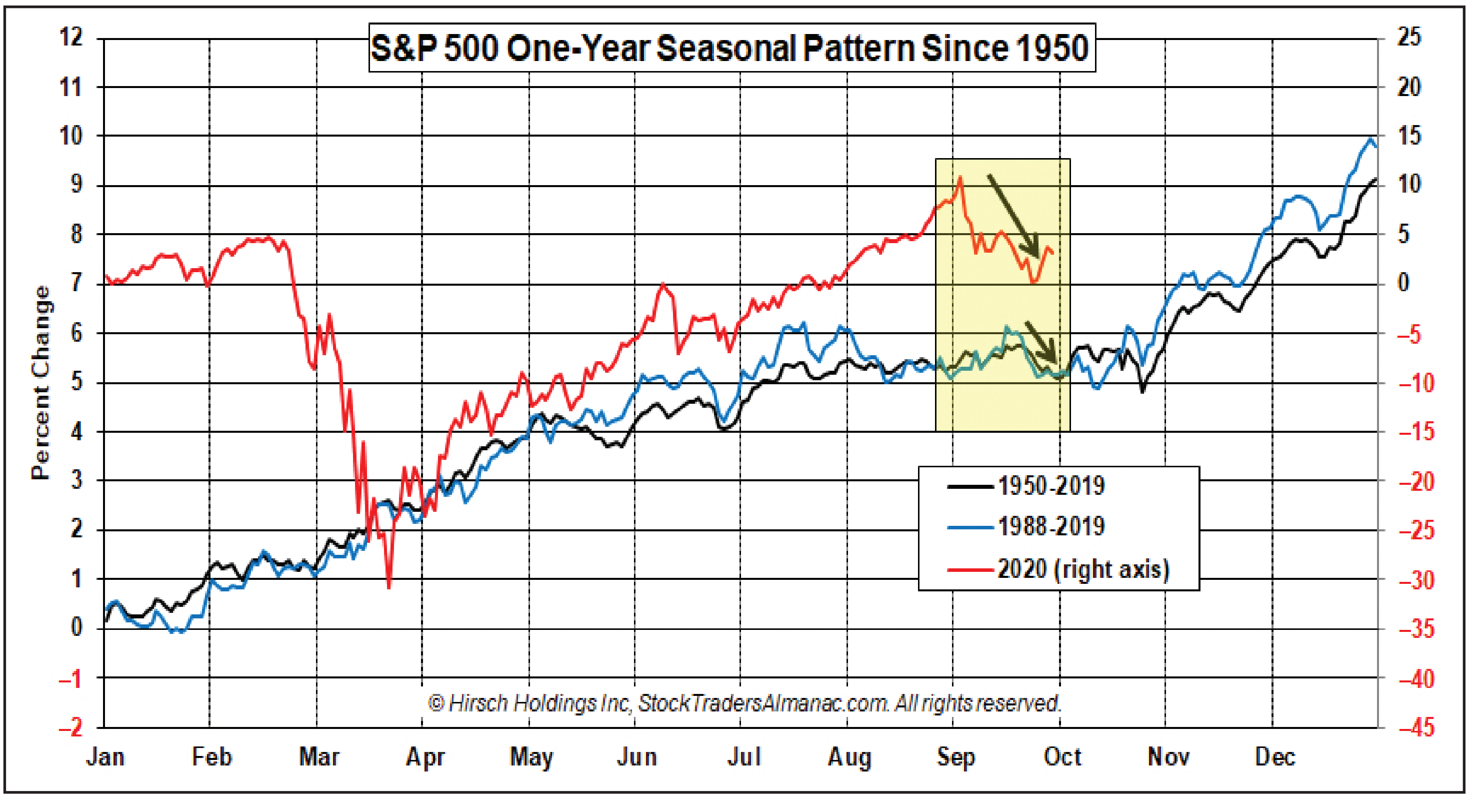
(continued from page 2)

and other sports (yes with some COVID protocols, but tackling and facing-off), golf outings are happening and people are going to restaurants and out and about.

The chart here shows the historical One-Year Pattern of the S&P 500 Since 1950 versus 2020. The black line shows the seasonal pattern since 1950. The blue represents the pattern since 1988. We use 1988 as it is the first year after the 1987 Crash when the market underwent a major systemic change with the implementation of downside protection circuit breakers and collars. It is noteworthy how the seasonal pattern persists during both the 70-year and 31-year timeframes.

2020 is plotted on the right axis due to the magnitude of the move this year. The yellow box highlights the rebirth of seasonality this September, especially during this notoriously negative Week After Triple Witching Week as detailed page 108 of the *2020 Almanac*, indicated by the two black arrows

Years like 1980, 1982, 2009 and 2016 with unseasonably early weakness and bear markets like 2020 returned to normal seasonal patterns in short order. And years like 1954, 1958, 1980, 1982, 1995 and 2009 that exhibited double-digit gains in the Worst Six Months still proceeded to deliver further sizable gains in the subsequent Best Six Months (page 52, STA 2020). We believe the return of market seasonality is upon us. Be alert to *Octoberophobia*, but remain ready for our Best Months Seasonal MACD Buy Signal.



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.

Moving Average Convergence Divergence (MACD): A trend-following momentum indicator that shows the relationship between two moving averages of prices.

Market at a Glance

Seasonal: *Improving.* October is the last month of the "Worst Six Months" for DJIA and S&P 500 and the last month of NASDAQ's "Worst Four Months". In election years, October ranks dead last, but excluding October 2008, ranking improves to mid-pack. Our Official MACD Seasonal Buy Signal can trigger anytime on or after October 1.

Fundamental: *Stalled.* Even though Atlanta Fed *GDPNow* model is estimating Q3 growth to be a massive 32%, weekly jobless claims and the number of people collecting unemployment benefits remains stubbornly high. Weekly claims continue to hover just under 1 million while over 26 million are still receiving benefits from all programs available. During the comparable period one-year ago, just under 1.5 million were receiving benefits from all programs. This is a significant gap that needs to close for the economy to truly recover. Without improvement, market gains are likely to be restrained.

"Weekly claims continue to hover just under 1 million while over 26 million are still receiving benefits from all programs available. During the comparable period one-year ago, just under 1.5 million were receiving benefits from all programs."

Technical: *Correcting.* DJIA, S&P 500 and NASDAQ have all retreated back below their respective 50-day moving averages. Thus far, respective 200-day moving averages have held, but could be tested soon. With some rounding S&P 500 (down 9.6% as of Sept 23, close) and NASDAQ (11.8%) have both met the 10% decline to satisfy the common definition of a correction. DJIA has not with its 8.0% peak to recent closing low decline.

Monetary: *0 – 0.25%.* Low rates are here again, and the Fed has committed to keep them low as long as needed and even longer to ensure its inflation objective is satisfied. The Fed is "all in" with its support for the economy and the market. From the post-financial crisis time of ZIRP (zero interest rate policy), market pullbacks and corrections are likely to be limited and shallow when they occur as there are historic levels of liquidity available and few places for it to go outside of equity markets.

Psychological: *Still Elevated.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors have slipped back to 51.5%. Correction advisors stand at 29.1% while Bearish advisors stand at 19.4%. Compared to the late August Bullish advisors peak of 61.5%, bullish sentiment has retreated, but it has not pulled back enough to give an "all clear" signal for new buying.

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