SEASONAL STRATEGIST
MONTHLY STOCK MARKET UPDATES

PROBABILITIES
FUND MANAGEMENT, LLC

Volume 7, Issue 2 | Published by Probabilities Fund Management, LLC | February 2021

February Almanac: Historically Weak in Post-Election Years

By Jeffrey A. Hirsch
Chief Market Strategist

Even though February is right in the middle of the Best Six Months, its long-term track record, since 1950, is rather tepid. February ranks no better than sixth and has posted meager average gains except for the Russell 2000. Small cap stocks, benefiting from "January Effect" carryover; tend to outpace large cap stocks in February. The Russell 2000 index of small cap stocks turns in an average gain of 1.0% in February since 1979 — just the sixth best month for that benchmark.

February's post-election year performance since 1950 is miserable, ranking dead last for S&P 500, NASDAQ and Russell 2000. Average losses have been sizable: -1.5%, -3.3% and -1.6% respectively. February ranks tenth for DJIA in post-election years with an average loss of 1.1%. February 2001 and 2009 were exceptionally brutal. NASDAQ dropped 22.4% in February 2001, its third worst monthly loss ever.

The first trading day is bullish for DJIA, S&P 500 and NASDAQ. Average gains on the first day over the last 21-year period are right around 0.44%. Strength then tends to fade after that until the stronger sixth, eighth, ninth and eleventh trading days.

Presidents' Day is the lone holiday that exhibits weakness the day before and after (*Stock Trader's Almanac 2021*, page 98). The Friday before this mid-winter three-day break can be treacherous and average declines persist for three trading days after the holiday going back to 1980. In recent years, trading before and after the holiday has been more bullish. S&P 500 has been up 9 of the last 10 years on the day before and NASDAQ has been up 7 of the last 8 years on the day after.

Last year's Presidents' Day week was the market's turning point as Covid-19 rapidly spread around the globe. All five indexes suffered double-digit losses in the last week of February.

Post-Election Year February since 1950

	Rank[1]	Avg %	Up	Down
DJIA	10	–1.1	8	9
S&P 500	12	–1.5	8	9
NASDAQ*	12	–3.3	4	8

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

February Vital Stats (1950-2019)

	DJIA	S&P 500	NASDAQ
Rank[2]	8	11	10
# Up	42	39	27
# Down	29	32	23
Average %	0.1	–0.04	0.6
4-Year Presidential Election Cycle Performance by %			
Post-Election	–1.1	–1.5	–3.3
Mid-Term	0.7	0.5	0.7
Pre-Election	1.4	1.2	2.8
Election	–0.7	–0.4	1.80
Best & Worst February by %			
Best	1986 8.8	1986 7.1	2000 19.2
Worst	2009 –11.7	2009 –11.0	2001 –22.4
February Weeks by %			
Best	2/1/2008 4.4	2/6/2009 5.2	2/4/2000 9.2
Worst	2/28/2020 -12.4	2/28/2020 -11.5	2/28/2020 -10.5
February Days by %			
Best	2/24/2009 3.3	2/24/2009 4.0	2/11/1999 4.2
Worst	2/10/2009 –4.6	2/10/2009 –4.9	2/16/2001 –5.0
February 2020 Bullish Days: Data 1999-2019			
	1, 16	1, 8, 10-12, 16	1, 4, 8, 10-12 16, 24
February 2020 Bearish Days: Data 1999-2019			
	19, 26	19, 26	8, 19, 26

[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

February Outlook:
Robinhood Thwarts January Indicator Trifecta, Watch Out For February Weakness

It's been a dynamic six weeks since we made our Annual Forecast for 2021 and volatility spiked the last week of January as the merry Gen Z traders made a run on the shorts of the old guard on Wall Street. Robinhood Markets and other trading apps and services and online communities used by younger up-and-coming retail traders were able to organize en masse and create an old-fashioned short squeeze. You've got to hand it to them.

Just like all new investment and trading vehicles and trends this will get under control. But as we have seen in recent years this sort of thing is becoming more frequent as connectivity and technology bring the world closer together with transactions and communications transpiring near the speed of light. This is a market flaw that runs the risk of injuring innocent investors who are not privy to what is happening.

Honestly, we've seen this before over the years. There is always a new twist and this one will get hammered out by the exchanges, the broker/dealers, the new platforms and the regulators. While it may be exciting to see the next generation embracing the market and flexing their muscle our markets thrive on fair and orderly transactions. Admittedly a little comeuppance every now and then is interesting and it does help to keep the big players more transparent on their toes.

Members of Congress from both sides of the aisle chimed in on the subject as lawmakers criticized trading restrictions of the hot-button stocks on these platforms. The new Biden administration has stated that its economic team is monitoring the situation. Perhaps this will be the issue that helps bring our divided government closer together.

Technically speaking, by some measures, the market is over extended and the selloff on Wednesday, January 27, 2021, the biggest one-day loss since October, was to be expected. Valuations and sentiment are also high. The retreat was also triggered by some disappointing earnings and perhaps the voracity of the Biden administrations barrage of executive orders and the realization by the markets that there's a new sheriff in the White House.

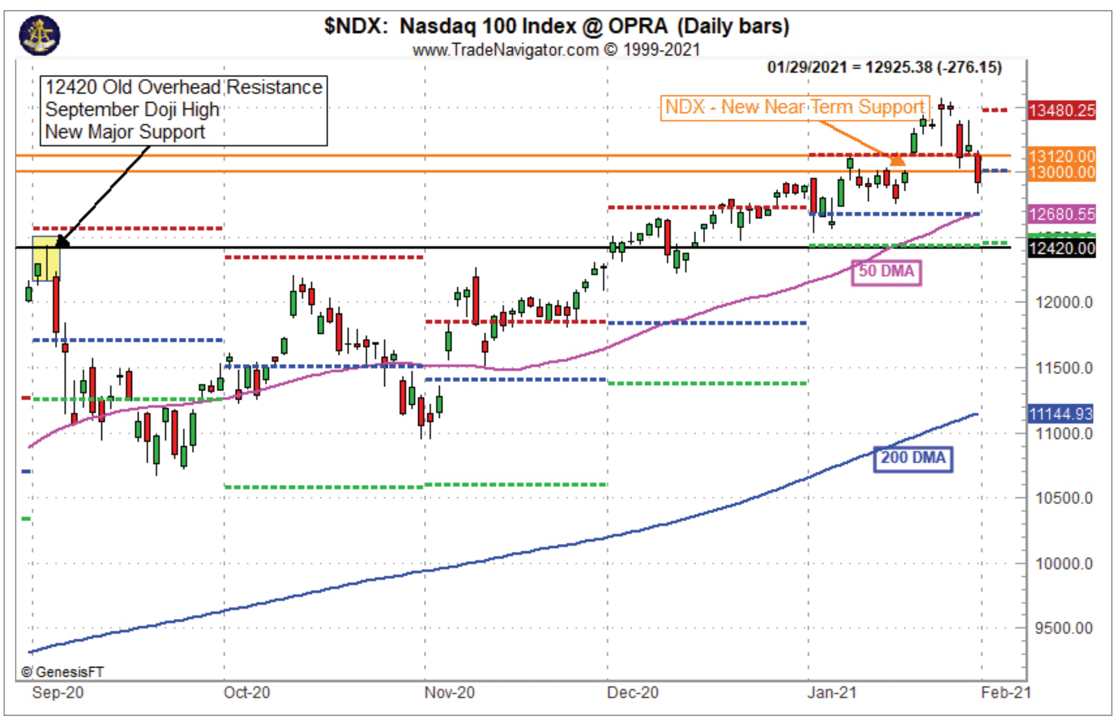
But we don't foresee a selloff of any major consequence. Pullbacks and consolidations are bound to happen and February is the weak link in the Best Six Months and worse in post-election years. Let's look at the technical picture first. Since the market has been dominated by tech and big tech even more for the past year during these Covid times the **NASDAQ 100 Index** (NDX) is the index of focus.

The selloff tested new support levels that have formed just above the year end highs and the early January consolidation as well as in that gap between the January 19 close and the open on the pop on January 20. The old major overhead resistance at the September 2 high was cleared by the usual strength in the last half of December and the Santa Claus Rally. That appears to be the new major support level at NDX 12420.

Our forecast for the year end rally to continue was on track as the market closed 2020 at new all-time highs. Market behavior remains on track with historical seasonal patterns. This was confirmed by the arrival of the Santa Claus Rally (SCR), which registered a 1% gain for the 7-trading-day stretch that ended on January 5. Gains continued into the first week of January pushing the First Five Day (FFD) early warning system solidly into the black. That put our January Indicator Trifecta at two for three momentarily.

But the market decline at the end of January cancelled the

(continued on page 3)



February Outlook: Robinhood Thwarts January Indicator Trifecta, Watch Out For February Weakness

(continued from page 2)

bullish January Indicator Trifecta. Regardless of where the blame falls for the sell off, the market had gone quite a distance in a relatively brief period of time and valuations and technical readings in many areas of the market were stretched. S&P 500 finished January down 1.1% and thus the January Barometer is negative.

Devised by Yale Hirsch in 1972, the January Barometer has registered eleven major errors since 1950 for an 84.5% accuracy ratio. This indicator adheres to propensity that as the S&P 500 goes in January, so goes the year. Including the eight flat years yields a .732 batting average.

S&P 500 January Early Indicator Trifecta — Mixed

New Year	SC Rally	FFD	JB	Feb	Last 11 Mon	Full Year
1968	0.3%	0.2%	– 4.4%	– 3.1%	12.6%	7.7%
1970	3.6%	0.7%	– 7.6%	5.3%	8.4%	0.1%
1973	3.1%	1.5%	– 1.7%	– 3.7%	– 15.9%	– 17.4%
1984	2.1%	2.4%	– 0.9%	– 3.9%	2.3%	1.4%
1990	4.1%	0.1%	– 6.9%	0.9%	0.3%	– 6.6%
1992	5.7%	0.2%	– 2.0%	1.0%	6.6%	4.5%
2002	1.8%	1.1%	– 1.6%	– 2.1%	– 22.2%	– 23.4%
2003	1.2%	3.4%	– 2.7%	– 1.7%	29.9%	26.4%
2009	7.4%	0.7%	– 8.6%	– 11.0%	35.0%	23.5%
2010	1.4%	2.7%	– 3.7%	2.9%	17.1%	12.8%
2020	0.3%	0.7%	– 0.2%	– 8.4%	16.4%	16.3%
2021	*1.0%*	*1.8%*	*– 1.1%*			
			Average:	**– 2.2%**	**8.2%**	**4.1%**
			# Up:	**4**	**9**	**8**
			#Down:	**7**	**2**	**3**

** As of Close January 29, 2021*

The near-term outlook for the market has diminished as every down January (page 20 Stock Trader's Almanac 2021) since 1950 was followed by a new or continuing bear market, a 10% correction or a flat year. However, it is challenging to envision a full-blown bear market with the Fed keeping a close eye on the market and the new administration working on additional fiscal stimulus.

This year's combination of a positive Santa Claus Rally and First Five Days with a full-month January loss has only occurred twelve times (including this year) since 1950. In the previous eleven occurrences S&P 500 was down seven times in February with an average loss of 2.2%. However, over the remaining 11 months of the year, S&P 500 advanced 81.8% of the time with an average gain of 8.2%. Full-year performance was positive 72.7% of the time, but with an average gain of 4.1%.

Because we do not rely solely on a single indicator or pattern, DJIA's December closing low of 29823.92 is still a key level to be watched. The reversal on the last day of January could have been entirely due to the less than expected results from J&J's vaccine. The market's response in early February will be key as to whether or not recent market weakness manifests into a deeper pullback or correction.

Needless to say we have concerns. Aside from this new Robinhood short squeeze mania, sentiment remains extremely frothy and complacent with the weekly CBOE Equity Only Put/Call Ratio hovering at historic lows around and under 0.40 since Thanksgiving. Then there are the rich valuations and extended technicals. Plus we have a pandemic that's still raging, roadblocks in the vaccine rollout, a struggling travel/leisure/hospitality sector and still elevated unemployment.

On top of all that it's a historically weak post-election year and we are heading into February, the seasonal weak spot of the Best Six Months. But as we discussed in the Annual Forecast last month the markets have done better in recent post-election years and even better under new democrats with democratic control of congress. And while February is even weaker on average in post-election years most of the damage that brings the averages down came from massive losses in February 2001 and 2009.

(continued on page 4)

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.

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

Santa Claus Rally: Discovered and named by Yale Hirsch in 1972 and published in the 1*973 Stock Trader's Almanac*. 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 rally has been averaged 1.3% S&P 500 gain since 1969. Santa's failure to show tends to precede bear markets, or times stocks could be purchased later in the year at much lower prices.

Triple Witch Week: Is the week containing the third Friday in March, June, September and December when stock options, index options and index futures expire on Friday.

January Effect: Is the tendency of small-cap stocks to outperform large-cap stocks in January.

January Barometer: Devised by Yale Hirsch in 1972, and published in the *1973 Stock Trader's Almanac*, the January Barometer states that as the S&P 500 goes in January, so goes the year. This indicator has registered eleven major errors since 1950 for an 84.5% accuracy ratio.

February Outlook: Robinhood Thwarts January Indicator Trifecta, Watch Out For February Weakness

(continued from page 3)

However, there is strong support for the bull. The Fed continues to have our back with a commitment to keep rates at near zero for the foreseeable future and continue to flood the market with cash. More fiscal stimulus is likely on the horizon and most importantly if we can gain any traction with the vaccine rollout, pent-up demand is likely to rev the economy up again and push the market to new heights.

For now be prepared for a February pullback, but nothing sinister. With seasonality back in gear and the prospects for reining in the Covid-19 pandemic improving we expect the market to be positive for the year somewhere in range of our best and base case Annual Forecast scenarios.

Market at a Glance

Seasonal: *Mixed.* It is the middle of the "Best Months," but February can be a weak link. In post-election years, February ranks last for S&P 500, NASDAQ and Russell 2000 and #10 for DJIA. Steep losses in February 2001 and 2009 pull average performance deeply negative.

Fundamental: *Mixed.* Vaccine rollout continues to appear to be lacking, speed, quantity and organization further extending the pandemic. New Covid-19 variants are spreading and only further muddy the already rather murky data that is available. Economic growth is improving, but likely has a cap as long as sizable portions of the economy remain restricted or shutdown. Corporate earnings from stay-at-home economy companies have been solid while other sectors, namely leisure and hospitality, languish.

Technical: *Consolidating.* DJIA, S&P 500 NASDAQ and Russell 2000 all broke out to new all-time closing this month, but in many areas of the market valuations have been stretched. DJIA, S&P 500 and NASDAQ are all comfortably above their respective 200-day moving averages. DJIA and S&P 500 have both flirted with their 50-day moving averages yesterday while NASDAQ has not. If support at the 50-day moving average fails, the next area of support is around the highs reached last September.

Monetary: *0 – 0.25%.* During the first Fed meeting of the year this week, the Fed once again confirmed its commitment to doing whatever it takes to support the economy. This commitment is linked to employment and inflation and the most recent announcement suggests near-zero rates and QE will be around for the foreseeable future and likely beyond. Should weakness appear in February, it is likely to be brief and any retreat shallow. "*Don't fight the Fed.*"

> ***"Near-zero rates and QE will be around for the foreseeable future and likely beyond. Should weakness appear in February, it is likely to be brief and any retreat shallow. "Don't fight the Fed.""***

Psychological: *Euphoric.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors stand at 57.8%. Correction advisors stand at 25.5% while Bearish advisors are at 16.7%. Bullish advisors are slightly lower than their recent peak at the end of November, but the CBOE Put/Call ratio fell below 0.40 in the third and fourth weeks of January, the lowest we have seen going back to at least 2001.

People

Management Team

Joseph B. Childrey, *Founder & CIO*

Jeffrey Rancourt, *President*

Mary C. Gray, *Chief Marketing Director*

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.
200 Mamaroneck Ave, Suite 300
White Plains, NY 10601
Office: 800-519-0438
Email: info@probabilitiesfund.com
Website: www.probabilitiesfund.com

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**.