SEASONAL STRATEGIST
MONTHLY STOCK MARKET UPDATES

PROBABILITIES
FUND MANAGEMENT, LLC

Volume 7, Issue 3 | Published by Probabilities Fund Management, LLC | March 2021

March Almanac: Softer in Post-Election Years

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Tempestuous March markets tend to drive prices up early in the month and batter stocks at month end. Julius Caesar failed to heed the famous warning to "beware the Ides of March" but investors have been served well when they have. Stock prices have a propensity to decline, sometimes rather precipitously, during the latter days of the month. In March 2020, DJIA plunged nearly 4012 points (-17.3%) during the week ending on the 20th.

March packs a rather busy docket. It is the end of the first quarter, which brings with it Triple Witching and an abundance of portfolio maneuvers from The Street. March Triple-Witching Weeks have been quite bullish in recent years. But the week after is the exact opposite, DJIA down 22 of the last 33 years — and frequently down sharply. In 2018, DJIA lost 1413 points (-5.67%). Notable gains during the week after for DJIA of 4.88% in 2000, 3.06% in 2007, 6.84% in 2009, 3.05% in 2011 and 12.84% in 2020 are the rare exceptions to this historically poor performing timeframe.

Normally a decent performing market month, post-election year payments to the Piper take a toll on March as average gains are trimmed noticeably (see accompanying Vital Statistics table). In post-election years March ranks: 5th worst for DJIA, S&P 500, and Russell 2000; NASDAQ is 4th worst. In 12 post-election years since 1973, NASDAQ has advanced six times, with three in a row 2009, 2013 and 2017.

Saint Patrick's Day is March's sole recurring cultural event. Gains on Saint Patrick's Day have been greater than the day before and the day after. Perhaps it's the anticipation of the

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Post-Election Year March since 1950

	Rank[1]	Avg %	Up	Down
DJIA	8	0.3	8	9
S&P 500	8	0.6	8	9
NASDAQ*	9	–0.2	6	6

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

March Vital Stats (1950-2019)

	DJIA		S&P 500		NASDAQ	
Rank[2]	6		6		7	
# Up	45		45		31	
# Down	26		26		19	
Average %	0.8		1.00		0.6	
4-Year Presidential Election Cycle Performance by %						
Post-Election	0.3		0.6		–0.2	
Mid-Term	1.0		1.1		1.3	
Pre-Election	1.8		1.9		3.1	
Election	0.2		0.4		–1.60	
Best & Worst March by %						
Best	2000	7.8	2000	9.7	2009	10.9
Worst	2020	–13.7	2020	–12.5	1980	–17.1
March Weeks by %						
Best	3/27/2020	12.8	3/13/2009	10.7	3/13/2009	10.6
Worst	3/20/2020	-17.3	3/20/2020	-15	3/20/2020	-12.6
March Days by %						
Best	3/24/2020	11.4	3/24/2020	9.4	3/13/2020	9.4
Worst	3/16/2020	–12.9	3/16/2020	–12.0	3/16/2020	–12.3
March 2020 Bullish Days: Data 1999-2019						
	1, 3, 9, 12, 15 17, 30		1, 3, 9, 11, 16, 17		1, 3, 11, 16-18 22, 25, 30	
March 2020 Bearish Days: Data 1999-2019						
	2, 19, 24		2, 12, 19, 23		2, 5, 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

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patron saint's holiday that boosts the market and the distraction from the parade down Fifth Avenue that causes equity markets to languish. Or maybe it's the fact that Saint Pat's usually falls in historically bullish Triple-Witching Week.

Whatever the case, since 1950, the S&P 500 posts an average gain of 0.27% on Saint Patrick's Day (or the next trading day when it falls on a weekend), a gain of 0.05% the day after and the day before averages a 0.07% advance. S&P 500 median values are 0.17% on the day before, 0.23% on Saint Patrick's Day and 0.03% on the day after. In the nine years when St. Patrick's Day falls on a Wednesday, like this year, since 1950, the day before (Tuesday) produced an average gain of 0.28%, while Wednesday averaged 0.02% and Thursday averaged 0.34%.

March Outlook:
Frothy Market Succumbs & Looks for Support In March

Unfortunately the February weakness we warned about last issue began to materialize mid-month and accelerated into month-end. The "excuse du jour" is rising bond yields as the 10-Year Treasury climbed above 1.5%. The reaction to the 10-Year yield moving above 1.5% could be a little overblown. It's barely back to pre-Covid levels. Perhaps it's more a sign of a healthy economy and rising inflation expectations, which is precisely what the Fed has been trying to foster. We're not overly concerned about the steepening yield curve.

But the market has been overbought and extended all year and arguably for several months in late-2020. February is the weak link in the "Best Six Months" and even weaker in Post-Election Years. After the big run-up in the first half of February folks have been looking for an excuse to take profits.

Sentiment had become rather exuberant with the Weekly CBOE Equity-Only Put/Call ratio near historic lows around and below 0.40 indicating a dearth of put-buying bears and a plethora of bulls in classic contrary indicator fashion. Our other favorite reverse psychology gauge *Investors Intelligence* Advisors Bullish % had been above 60% from Thanksgiving through January with the difference between Bulls and Bears above 40 from mid-November until mid-February. Excessive bullish sentiment has receded a tad, but remains elevated.

March is also softer in Post-Elections and often prone to weakness in the Week After Triple Witching with DJIA down 22 of last 33. Typical March trading comes in like a lion and out like a lamb with strength during the first few trading days followed by choppy to lower trading until mid-month when the market tends to rebound higher. But the last few days often succumb to end of Q1 selling pressure.

As you can see in our One-Year Seasonal Pattern chart of the S&P 500, 2020 in the orange line was a couple of standard deviations above the typical year and even more

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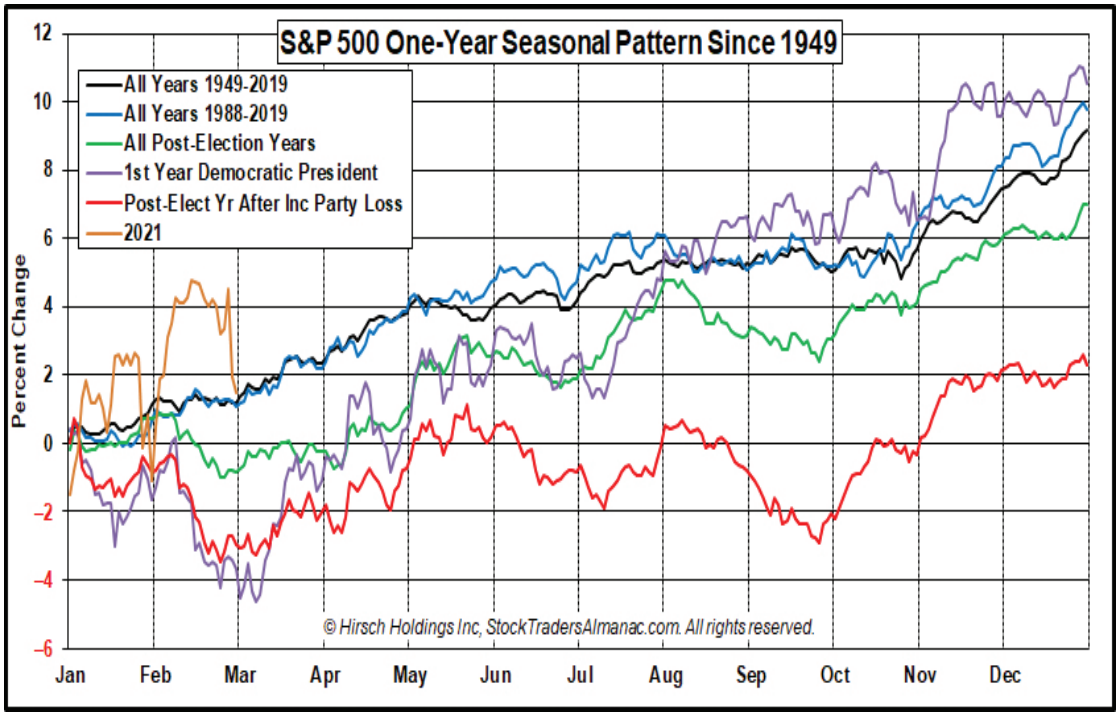

March Outlook: Frothy Market Succumbs & Looks for Support In March

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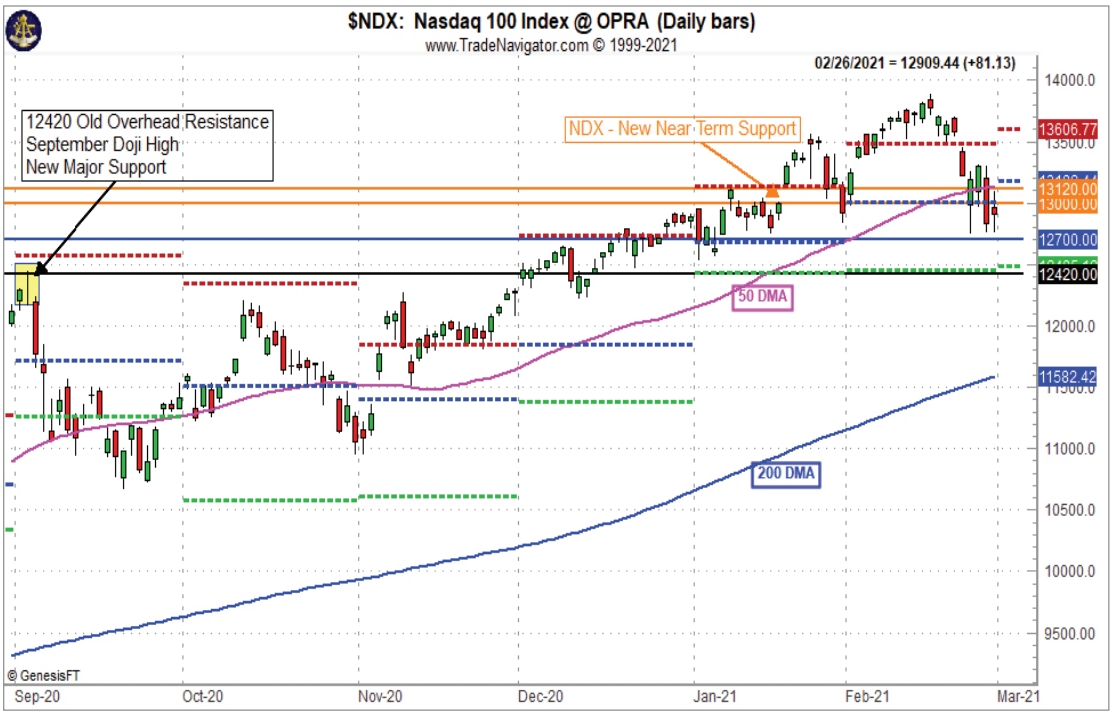
as compared to historical Post-Election Year patterns. In fact on a relative trend basis this February selloff is par for the course as compared to all Post-Election Years (green line), 1st Year Democratic Presidents (purple line) and Post-Election Years After Incumbent Party Losses (red line).

On the technical front we continue to track the big tech leading **NASDAQ 100 Index** (NDX). Recent selling has breached support levels at 13,000 and is now looking for support near 12,720 as shown in the blue line in the accompanying NDX chart. NDX 12,720 is right at the mid-December/early-January consolidation level as well as December pivot-point resistance (red dotted line) and the January monthly pivot point (blue dotted line). The old September high of 12420 still holds as major support and is just below the 10% correction level from the February 16 high of 13,774.

Bottom line, the market has been overdue for a pullback and has entered a historically weak stretch in the Best Six Months and Post-Election years. Covid vaccine rollout delays continue to be a concern as perfect execution has been baked into stock prices since December and any setbacks are likely to give the market jitters.

The end of Q1 has always been a volatile time for stocks as institutions shore up positions ahead of earnings season. Further consolidation is likely in March, but we expect the market to find support shortly and subsequently challenge the recent highs again in April (the Dow's best month) as the Best Six Months comes to a close. Additional weakness can also be expected in the Worst Six Months May-October.



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, 2020, the index contained only 3,463 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 *1973 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.

Market at a Glance

Fundamental: *Improving.* Corporate earnings were largely a success (where success was expected). Vaccine production and distribution are on the rise while new cases and deaths have eased. Weekly initial jobless claims were better than expected. Q4 GDP was also revised higher to 4.1%.

Technical: *Consolidating.* DJIA, S&P 500, NASDAQ and Russell 2000 all broke out to new all-time closing highs in February. DJIA and S&P 500 are still above their respective 50-day moving averages, NASDAQ has fallen below its. Key support for DJIA and S&P 500 is around January's lows. NASDAQ could slip lower towards the highs of early last September.

Monetary: *0 – 0.25%.* The Fed still has the liquidity spigot wide-open. The new administration is pushing another $1.9 trillion in stimulus spending. Inflation and inflation expectations are creeping higher. All of which is causing Treasury yields to rise. Stocks seem to be overreacting to the recent rise in yields. Yields have historically risen during the "Best Months."

> ***"Stocks seem to be overreacting to the recent rise in yields. Yields have historically risen during the "Best Months."***

Seasonal: *Bullish.* March is normally a decent performing market month however post-election year payments to the Piper can take a toll on March as average historical gains are trimmed noticeably. In post-election years March ranks: #8 DJIA, S&P 500, and Russell 2000; NASDAQ is 4th worst with an average loss of 0.2%.

Psychological: *Retreating.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors have slipped down to 56.3%. Correction advisors have increased to 25.2% while Bearish advisors are at 18.5%. Bullish advisors are at their lowest reading since last November. Bearish advisors are only slightly higher which suggests previous Bulls have joined the Correction camp. Historically, bullish sentiment is still rather elevated even after the recent declines in the percentage of Bullish advisors.

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