SEASONAL STRATEGIST
MONTHLY STOCK MARKET UPDATES

PROBABILITIES
FUND MANAGEMENT, LLC

Volume 7, Issue 5 | Published by Probabilities Fund Management, LLC | May 2021

May Almanac: Stronger in Post-Election Years

By Jeffrey A. Hirsch
Chief Market Strategist

May officially marks the beginning of the "Worst Six Months" for the DJIA and S&P. To wit: "Sell in May and go away." Our "Best Six Months Switching Strategy," created in 1986, proves that there is merit to this old trader's tale. A hypothetical $10,000 investment in the DJIA compounded to a gain of $960,943 for November-April in 70 years compared to just $1,656 for May-October. The same hypothetical $10,000 investment in the S&P 500 compounded to $788,997 for November-April in 70 years compared to a gain of just $10,145 for May-October.

May has been a tricky month over the years, a well-deserved reputation following the May 6, 2010 "flash crash". It used to be part of what we once called the "May/June disaster area." From 1965 to 1984 the S&P 500 was down during May fifteen out of twenty times. Then from 1985 through 1997 May was the best month, gaining ground every single year (13 straight gains) on the S&P, up 3.3% on average with the DJIA falling once and two NASDAQ losses.

In the years since 1997, May's performance has been erratic; DJIA up twelve times in the past twenty-three years (four of the years had gains in excess of 4%). NASDAQ suffered five May losses in a row from 1998-2001, down –11.9% in 2000, followed by thirteen sizable gains in excess of 2.5% and five losses, the worst of which was 8.3% in 2010.

Post-election Year Mays rank near the top, registering average gains on DJIA and S&P 500 of 1.3% and 1.7% respectively. DJIA and S&P 500 have advanced in every post-election year May beginning in 1985. Russell

(continued on page 2)

Post-Election Year May since 1950

	Rank[1]	Avg %	Up	Down
DJIA	4	1.3	11	6
S&P 500	3	1.7	11	6
NASDAQ*	2	3.4	10	2

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

May Vital Stats (1950-2020)

	DJIA		S&P 500		NASDAQ	
Rank[2]	9		8		5	
# Up	38		42		31	
# Down	33		29		19	
Average %	–0.04		0.2		1.0	
4-Year Presidential Election Cycle Performance by %						
Post-Election	1.3		1.7		3.4	
Mid-Term	–0.6		–0.7		–0.7	
Pre-Election	–0.3		–0.2		1.1	
Election	–0.4		0.1		0.2	
Best & Worst May by %						
Best	1990	8.3	1990	9.2	1997	11.1
Worst	2010	–7.9	1962	–8.6	2000	–11.9
May Weeks by %						
Best	5/29/1970	5.8	5/2/1997	6.2	5/17/2002	8.8
Worst	5/25/1962	-6	5/25/1962	-6.8	5/7/2010	-8
May Days by %						
Best	5/27/1970	5.1	5/27/1970	5.0	5/30/2000	7.9
Worst	5/28/1962	–5.7	5/28/1962	–6.7	5/23/2000	–5.9
May 2021 Bullish Days: Data 2000-2020						
	4, 7, 10, 12 17, 27		3, 17, 18, 25, 27		3, 10, 18, 25, 27	
May 2021 Bearish Days: Data 2000-2020						
	5, 6, 11, 13 19, 20, 28		5, 13, 19, 20		5, 20	

[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

May Almanac: Stronger in Post-Election Years

(continued from page 1)

1000 has been up ten years straight in post-election year Mays.

The first two days of May trade higher frequently and the S&P 500 has been up 21 of the last 31 first trading days of May. A bout of weakness often appears around or on the third, ninth, thirteenth and fourteenth trading days for large cap stocks. Generally, the first half of the month is better than the second half in post-election years since 1950 (pages 40 & 42 *STA 2021*).

May Outlook: Muted Market Action Anticipated Over Worst Six Months

Seasonality remains back to normal and it appears from all our observations that it will continue to track historical patterns for the remainder of the year. April's solid returns across the board led by S&P 500 (up 5.2%) and NASDAQ (up 5.4%) and new highs for DJIA, S&P 500 and NASDAQ capped off a banner Best Six Months. DJIA is up 27.8%, S&P 500 is up 27.9%, NASDAQ is up 28.0% and the Russell 2000 is up an amazing 47.3% since the close of October through the close on April 30.

Our Best Six Months MACD Seasonal Sell Signal triggered on the close of April 22. From our November 5 Buy Signal DJIA gained 19.1% and S&P advanced 17.8%. The Sell Signal looks rather timely with the MACD crossover or negative histogram occurring well above the zero line. NASDAQ's Best Eight Months ends June 1 so the running gains so far are 17.4% for NASDAQ and 36.5% for Russell 2000 as of the April 30 close. June 1 is the earliest NASDAQ's Seasonal Sell can trigger.

We are not proponents of the indiscriminate "Sell in May and go away" philosophy. Instead of selling in May, we prefer to "Reposition in May." Our strategy shifts to a more neutral stance after the Seasonal Sell Signal.

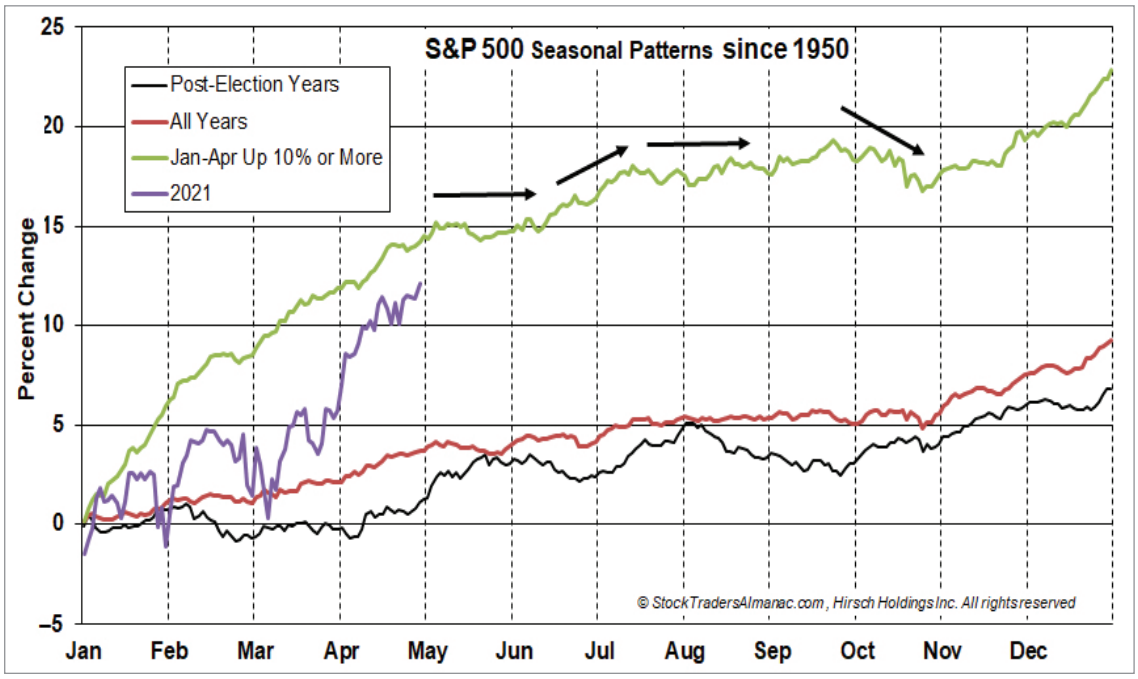
In case you missed it, I discussed my Worst Six Months outlook and strategy in my April 28 webinar: "Sell in May But Don't Go Away! Tactical Seasonal Sector Rotation & Stock Trading Strategies." You can watch the replay if you register at this link https://attendee.gotowebinar.com/register/5753287365631356685?source=mfp.

Seasonal Patterns Endure

Year to date the S&P 500 is up 11.3% as of the April 30 close. This is way above the historical averages and a rather encouraging sign that supports our outlook for a muted Worst Six Months manifesting in mostly sideways market action with limited shallow pullbacks and no major corrections. We had a superb question come up on the webinar about market behavior following first four months up more than 10%. We posted our findings on the blog and found that the previous 17 times since 1950 that the S&P 500 was up over 10% for the first four months preceded flat market performance from May to late-October.

The chart here of the S&P 500 Seasonal Pattern overlaid

(continued on page 3)



May Outlook: Muted Market Action Anticipated Over Worst Six Months

(continued from page 2)

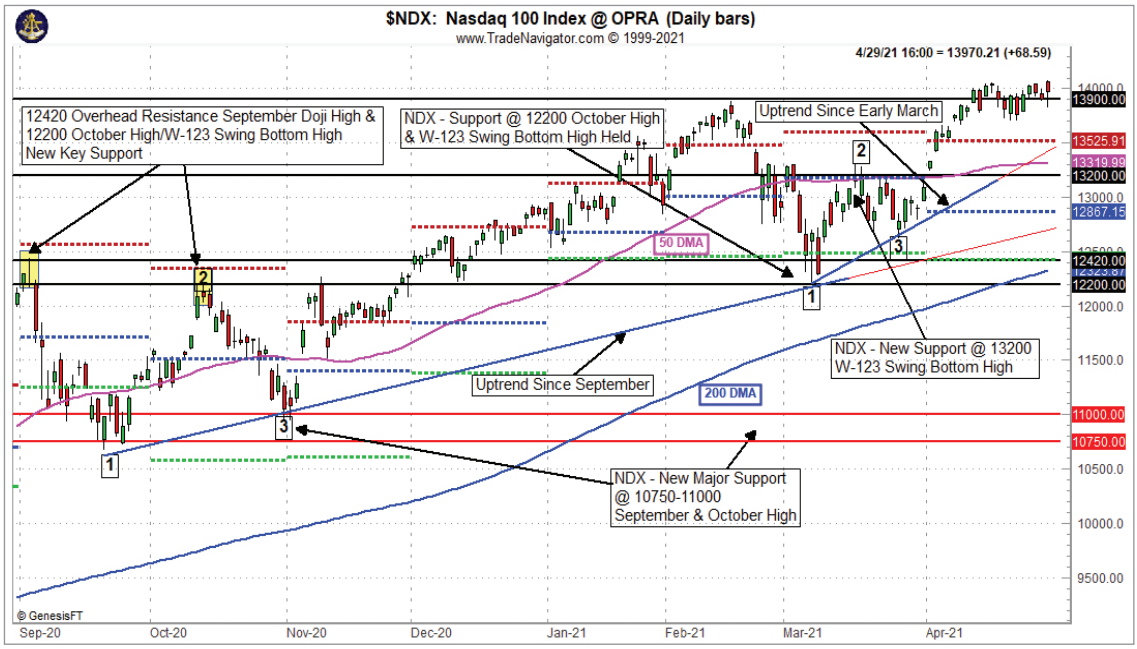
with the years January-April were up more than 10% also highlights how well the market continues to track seasonals in 2021. The magnitude of gains is well above historic norms, but weakness in late February and late March as well as solid April strength are emblematic of typical seasonal market behavior.

The market appears ripe for a pause and pullback following the extended up move we've had. Technically the charts of the indexes look toppy. The chart here of the **NASDAQ 100** (NDX) we have been tracking shows the NDX stalling around our 13,900 resistance line. As discussed in the Market at a Glance below Market internal readings of Advancers/Decliners and New Highs/Lows also appear to be rolling over.

As the market's prospects over the next several months look rather tame with little upside we will stick with the system. Now is the season to consider repositioning and shifting to a more neutral stance for the Worst Six Months. But our outlook remains bullish for the year as a whole.

The Fed continues to reaffirm its unrelenting support for the economy and its commitment to remain super accommodative. The market seems to be reacting well to President Biden's first 100 days, his agenda and the plans he laid out in his April 28 address to a joint session of Congress. Despite several concerning global hotspots the Covid-19 pandemic does not appear to be impacting the market much anymore.

Now that folks in many countries are returning to normal they will likely be returning to more normal seasonal behaviors and taking time away from the market in the summer months. This should help facilitate the usual summer market doldrums of lighter volume and the usual tepid sideways action with minor pullbacks during the Worst Six Months May-October. This is the perfect time for some spring portfolio cleaning, reevaluating positions and some repositioning.



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 3463 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

Seasonal: *Neutral.* May is the first month of DJIA and S&P 500 "Worst Six Months." However, NASDAQ and Russell 2000 strength historically lasts through June. In post-election years, May has been a solid month. DJIA and S&P 500 have both advanced in May for nine straight post-election years.

Fundamental: *Supportive.* Monetary policy and fiscal policy are aligned and highly supportive. Economic activity is expanding, and unemployment is improving. Corporate earnings have been solid, and forecasts remain generally positive. Some concerns include inflation and longer-term interest rates along with ongoing Covid-19 hotspots.

Technical: *Topping?* DJIA, S&P 500 and NASDAQ closed at new all-time highs in April, but Russell 2000 has not. Our Seasonal Sell Signal has triggered for DJIA and S&P 500. Weekly Advancers have dwindled while Weekly Decliners have been rising. New 52-week Highs appear to have peaked in March and New 52-week Lows have been expanding.

"May is the First month of DJIA and S&P 500 "Worst Six Months… Our Seasonal Sell Signal has triggered for DJIA and S&P 500."

Monetary: *0 – 0.25%.* The Fed appears to be focused on ensuring it does not repeat its mistakes of the recent past. By mistakes I mean having to leave rates at zero for nearly a decade and having to use multiple rounds of QE to support the economy following the financial crisis of 2008-2009. This time around the Fed appears determined to get the economy back on track as quickly as possible. The current "at any cost" approach is even willing to tolerate above target levels of inflation in the near-term. Thus far, this approach has worked.

Psychological: *Fading.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors have slipped to 59.2% from 63.7%. Correction advisors have climbed to 24.3% while Bearish advisors are at 16.7%. Sentiment has been elevated for a lengthy period and for valid reason, the market was continuing to rise. Now that the market has paused, and the likelihood of another massive move higher fades so is bullish sentiment.

People

Management Team

Jeffrey Rancourt, *President*

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

Joseph B. Childrey, *Founder & CIO*

Mary C. Gray, *Chief 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

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**.