SEASONAL STRATEGIST
MONTHLY STOCK MARKET UPDATES

PROBABILITIES FUND MANAGEMENT, LLC

Volume 7, Issue 8 | Published by Probabilities Fund Management, LLC | August 2021

August Almanac: Challenging Month in Post-Election Years

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Money flows from harvesting made August a great stock market month in the first half of the Twentieth Century. It was the best month from 1901 to 1951. In 1900, 37.5% of the population was farming. Now that less than 2% farm, August is amongst the worst months of the year. It is the worst DJIA, S&P 500, and Russell 2000 month over the last 33 years, 1988-2020 with average declines ranging from 0.4% by Russell 2000 to 0.8% by DJIA. For NASDAQ August ranks second worst over the same period with an average gain of 0.2%.

Contributing to this poor performance since 1987; the second shortest bear market in history (45 days) caused by turmoil in Russia, the Asian currency crisis and the Long-Term Capital Management hedge fund debacle ending August 31, 1998 with the DJIA shedding 6.4% that day. DJIA dropped a record 1344.22 points for the month, off 15.1% — which is the second worst monthly percentage DJIA loss since 1950. Saddam Hussein triggered a 10.0% slide in August 1990. The best DJIA gains occurred in 1982 (11.5%) and 1984 (9.8%) as bear markets ended. Sizeable losses in 2010, 2011, 2013 and 2015 of over 4% on DJIA have widened Augusts' average decline.

In post-election years, Augusts' rankings are little changed. August is the worst month for DJIA and second worst for S&P 500, NASDAQ and Russell 2000. Average declines in post-election year Augusts swell to 0.8% by Russell 2000 to 1.7% by DJIA. Each index has also seen more declining post-election year Augusts than positive.

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Post-Election Year August since 1950

	Rank[1]	Avg %	Up	Down
DJIA	12	–1.7	7	10
S&P 500	11	–1.4	7	10
NASDAQ*	11	–1.2	4	8

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

August Vital Stats (1950-2020)

	DJIA	S&P 500	NASDAQ
Rank[2]	10	10	11
# Up	40	39	28
# Down	31	32	22
Average %	–0.1	0.0	0.4
4-Year Presidential Election Cycle Performance by %			
Post-Election	–1.7	–1.4	–1.2
Mid-Term	–0.5	–0.2	–1.2
Pre-Election	0.8	0.4	0.5
Election	1.1	1.3	3.2
Best & Worst August by %			
Best	1982 11.5	1982 11.6	2000 11.7
Worst	1998 –15.1	1998 –14.6	1998 –19.9
August Weeks by %			
Best	8/20/1982 10.3	8/20/1982 8.8	8/3/1984 7.4
Worst	8/23/1974 -6.1	8/5/2011 -7.2	8/28/1998 -8.8
August Days by %			
Best	8/17/1982 4.9	8/17/1982 4.8	8/9/2011 5.3
Worst	8/31/1998 –6.4	8/31/1998 –6.8	8/31/1998 –8.6
August 2021 Bullish Days: Data 2000-2020			
	13, 18, 20, 27	9, 16-18, 20 27, 30	16-18, 20, 27, 30
August 2021 Bearish Days: Data 2000-2020			
	2, 11, 30	11, 30	11

[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

August Almanac: Challenging Month in Post-Election Years

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The first nine trading days of the month have exhibited weakness while mid-month is better. Note the bullish cluster from August 16 through 20. The end of August tends to be weaker when traders evacuate Wall Street for the summer finale. The last five days have declined in 13 of the last 25 years with the S&P 500 up only eight times on the penultimate day in the past 25 years. In the last 25 years, the last five days of August have averaged losses of: Dow Jones Industrials, -0.7%; S&P 500, -0.5% and NASDAQ, -0.04%. Since 2014, the last five days have been improving with only one loss by DJIA, S&P 500 and NASDAQ.

August Outlook:
Rally Primed To Pause in Worst Months

Our outlook for the full year remains clearly bullish, more in line with the best cast scenario of our Annual Forecast in the January 2021 issue. S&P 500 is already up about 17% so far this year at the end of July. Our updated outlook is for S&P 500 to finish the year in the 4500-4600 range or even higher, but we do anticipate the rally to pause over the next 2-3 months during the worst two months of the year.

For the past 33 years from 1988-2020 August and September are the worst two months of the year for DJIA, S&P 500 and NASDAQ. August is the worst for DJIA and S&P 500 and September is worst for NASDAQ. August is up only 18 of the past 33 years for DJIA and S&P 500 with average losses of -0.8% and -0.6% respectively. NASDAQ is a bit better in August up 19 of 33 years with an average gain of +0.2%.

September actually has more losses for the Dow (up only 16 of 33, average -0.5%) and S&P (up 17 of 33, average -0.3%). NASDAQ has been up 20 of 33 Septembers with an average loss of -0.1%. The average losses are not huge but the trend of volatility is consistent with a plethora of sizable drops, most notably in August 2015, 2013, 2011, 2010, 2001, 1998, 1997, 1992 and 1990 and in September 2020, 2015, 2011, 2008, 2002, 2001, 2000 and 1990.

Bullish forces continue to persist. The Fed remains easy and accommodative. More fiscal stimulus is likely from Washington as Congress nears finalizing the deals on infrastructure and spending. Economic readings remain robust, but Q2 GDP was below expectations. Q2 earnings season has been rather stellar, but Q3 comps will not be as easy. This Covid-19 Delta variant is a concern and poses a threat to the bull and the economic expansion. Political wrangling here in The States and geopolitical machinations around world could also knock the market off course momentarily.

Despite the persistence and resilience of this bull rally market internals and technicals are showing some signs of fatigue. Advancing issues have barely outpaced decliners in recent weeks. New highs have been shrinking while new lows remain high. Technical indicators are still struggling to break through resistance with Relative Strength, Stochastics and MACD breaking down again.

In addition to the exogenous threats from Covid, U.S. politics, geopolitics, internals and technicals, the timing of a pause coincides with the weak seasonal patterns mentioned above during the worst months of the year August and September (not to mention Octoberphobia) as well as the 4-Year Presidential Election Cycle.

As you can see in the chart here of the Modern 4-Year Presidential Election Cycle indicated by the black arrow we are due for a pause over the next couple of months before the rally resumes in the September/October timeframe. This illustration of the average 4-year cycle uses the S&P 500 back to 1949, which is the first full cycle post-WWII vs. other comparisons that use the Dow back 125 years to 1896.

This more recent dataset is a better representation of the modern cycle where post-election years have been better and election years weaker — impacted by the undecided election in 2000 and the financial crisis of 2008. Midterm years are still lackluster with the propensity for significant bottoms and pre-election years are still the tops.

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August Outlook: Rally Primed To Pause in Worst Months

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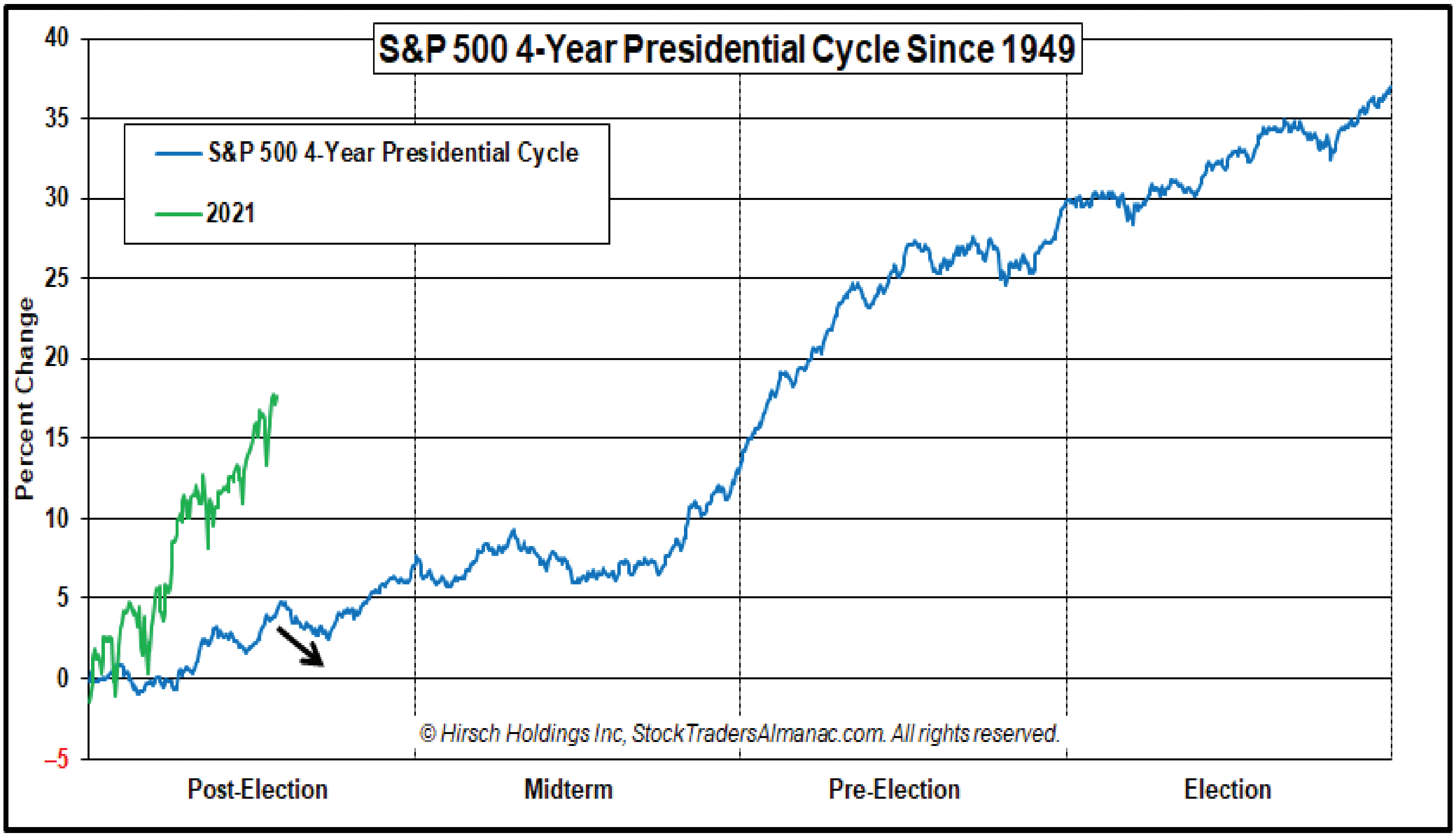
This creates the sweet spot of the 4-year cycle from Q4 in the midterm year through Q2 in the pre-election year. From the midterm low to the pre-election year high DJIA averages a 44.6% gain since 1950 and NASDAQ averages a 68.2% gain since 1974.

The recent gains are impressive and hard to resist, but history tells us that it is prudent to be cautious at this time of year. We believe it is the best course of action to sit tight, be patient and use the time to prepare for the next Best 6/8 Months Buy Signal and the year-end rally.



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 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.

Market at a Glance

Seasonal: *Bearish.* August is the worst DJIA and S&P 500 month during 1988-2020 and second worst for NASDAQ. In post-election years since 1950, August is still ranked no higher than #11 while average performance slips deeper into negative territory. The Summer Volume Doldrums historically span all of August as traders and investors escape the office and head out on vacations.

Fundamental: *Softening.* U.S. Q2 GDP (Advanced) came in below expectations in July at 6.5%. Weekly initial jobless claims appear to be plateauing right around 400,000 possibly ending the trend of falling claims. Corporate earnings in Q2 have been solid, but Q3 year-over-year comparisons are likely to be more challenging. The Delta variant of the coronavirus that causes Covid-19 is rapidly spreading causing yet another wave of cases while domestic daily vaccination numbers are falling. The increase in cases is triggering new mask mandates and causing some employers to delay the return to the office.

"The Summer Volume Doldrums historically span all of August as traders and investors escape the office and head out on vacations."

Technical: *Breakout stalling?* DJIA, S&P 500 and NASDAQ have all broken out to new all-time highs. However, the momentum that pushed them higher appears to be fading. Weekly and cumulative advance/decline metrics are tepid suggesting the move to marginally higher new highs is being done with limited participation. Historically as participation fizzled so has the rally.

Monetary: *0 – 0.25%.* Nothing new was said in the Fed's official statement from the July 27-28 FOMC meeting. There was no change in existing policy while they reiterated that they are willing to tolerate above target inflation in the expectation of achieving that target over the longer-term. Current inflation metrics are still viewed as transitory. The bond market appears to agree and so do we.

Psychological: *Bulls in retreat.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors have slipped to 52.6%. Correction advisors have increased to 30.9% while Bearish advisors have crept up to 16.5%. The recent pullback in bullish sentiment combined with a modest uptick in correction/bearish is encouraging, overall sentiment is still at an elevated level. Current levels appear to support a market that is likely to continue to meander higher with the occasional dip along the way.

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