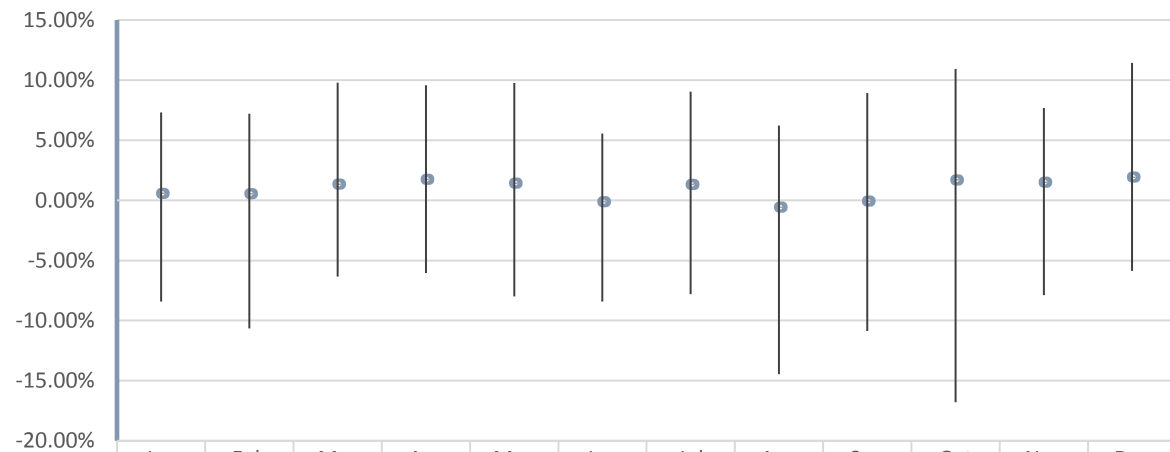
Will the Bear Surface in September?

In the financial news you constantly hear that the market tends to perform poorly in September. Should one sell and go to the sidelines? Let's review the history of monthly returns over the last 30 years to see if the concerns have any validity, see table 1 below. Since January of 1988 or 368 months of data the lowest average monthly return occurred in August at -0.59%, June -0.13% and September being the third lowest average return at -0.07%. In addition, over the 30 years the single lowest monthly returns occurred in October at -16.79%, August -14.46% and September third at -10.87%. September's lowest monthly performance was not much above the monthly low average of -9.3%.

Table 1. Monthly S&P 500 Returns January 1988 to August 2018



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Hi	7.32%	7.21%	9.78%	9.57%	9.75%	5.55%	9.03%	6.21%	8.92%	10.93%	7.67%	11.44%
Lo	-8.43%	-10.65%	-6.34%	-6.06%	-7.99%	-8.43%	-7.80%	-14.46%	-10.87%	-16.79%	-7.88%	-5.87%
Average	0.55%	0.53%	1.33%	1.74%	1.42%	-0.13%	1.30%	-0.59%	-0.07%	1.68%	1.50%	1.92%

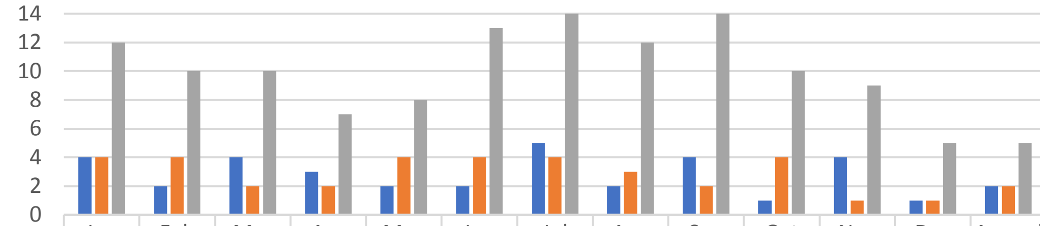
Hi Lo Average

Source: Morningstar

So why all the anxiety about September? Over the last 30 years 31.8% (124/368) of the months returns have been negative, see table 2 below. September is tied with July as the month with the most returns below zero at 14. June wasn't much better at 13. This could be the reason for September's connotation of being a bad month for the market. In addition, June thru September appears to be an overall weak period with 42.7% (53/124) of the monthly returns below zero. Maybe this is one of the reasons that market pundits say, "sell in May and go away" until the fall.

Would "Sell in May and go away" be a smart strategy? In only 53 of 123 months during June to September was the monthly return negative, less than 50%. Unless one is a seasoned trader and has a disciplined approach to move in and out of the market we would not suggest this strategy. You have a greater than 50% chance of getting the market direction incorrect. In addition, the trading costs and tax implications may outweigh the benefits.   What the industry recommends is that investors stay fully invested.

Chart 2.



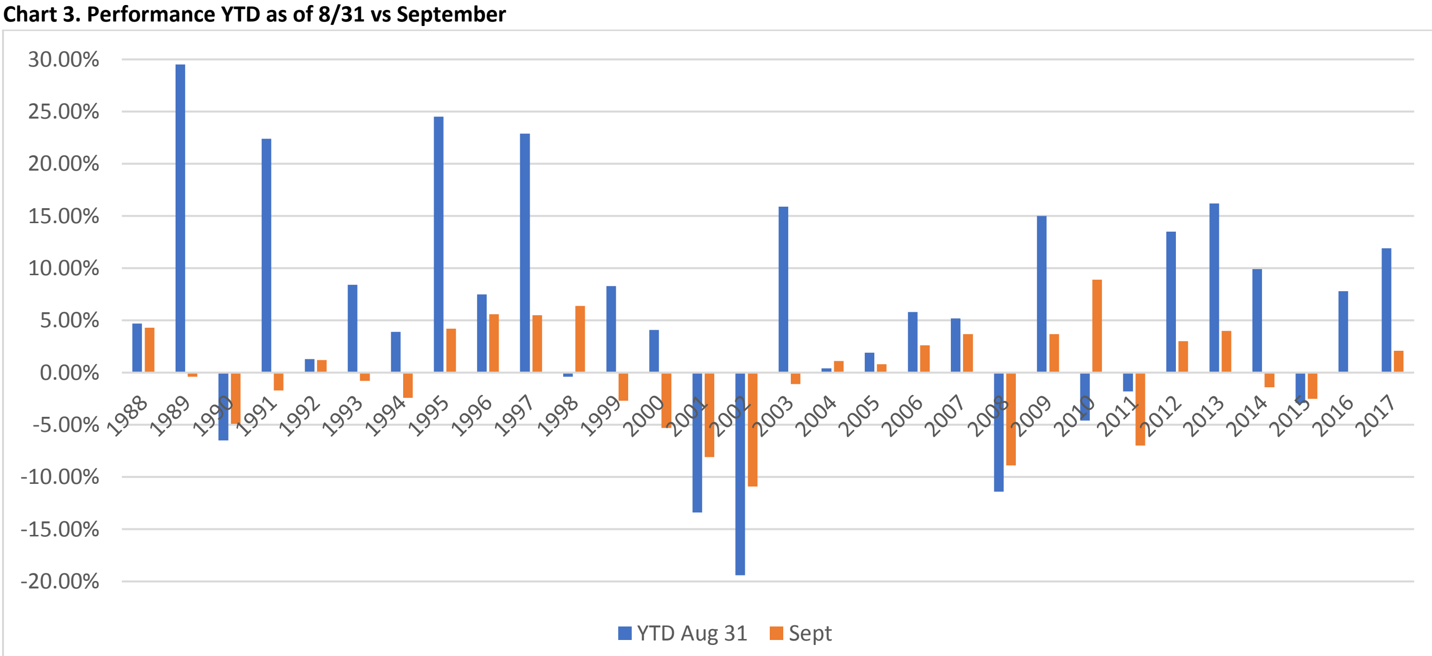
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
Election Neg	4	2	4	3	2	2	5	2	4	1	4	1	2
Midterm Neg	4	4	2	2	4	4	4	3	2	4	1	1	2
Total Negatives	12	10	10	7	8	13	14	12	14	10	9	5	5

Election Neg   Midterm Neg   Total Negatives

Source: Morningstar

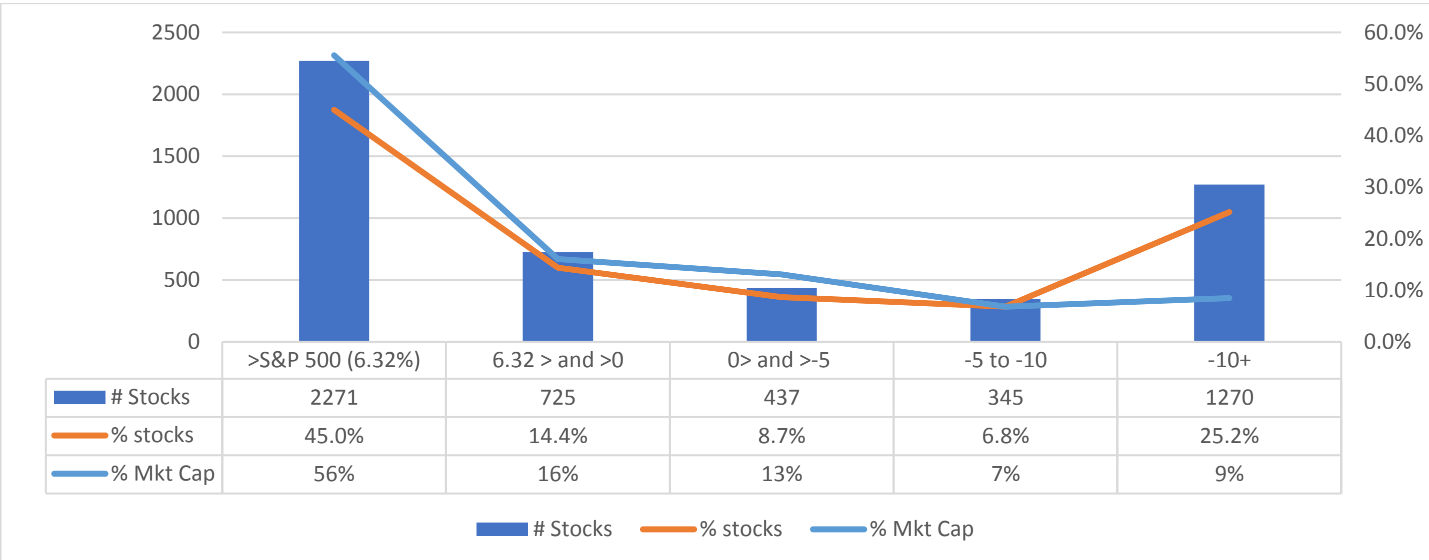
Does Year-to-Date performance impact September? Each year since 1988 the market performance through August has been positive 22 times, see chart 3 below. The subsequent September was positive 14 or 64% of the time. Year to date through 8/31/2018 the market is up 6.3%. Therefore, based on history, we have a 2-1 probability of a positive September. When year-to-date performance is negative, 75% of the time September is also negative.

Chart 3. Performance YTD as of 8/31 vs September



What other factors could be causing the September effect? Another factor that investors should be aware of is the fact that mutual funds are required to close their books during the 4th quarter and determine their year-end tax distributions. There is a tendency of mutual funds selling stocks with large losses to lower the distribution payout as well as to window dress their year-end holdings report.   Through August 31, 2018 45% of the U.S. domiciled and listed stocks performance was above the S&P 500 of 6.3%, see Chart 4 below. The outperformers represented 56% of the market cap value. Another 14% of the stocks and 16% of the market capitalization performance was above zero return YTD bringing the totals to 59% of the # of stocks and 72% of market cap. We were not able to determine past years numbers for historical comparison. With only 40% of the stocks, 28% market cap, with year-to-date returns below zero there should be diminished pressure on funds to sell stocks with losses. In addition, the impact of mutual funds has diminished as assets have flowed to ETS that tend not to be as sensitive to tax implications as holdings appear more stable.

Chart 4. 2018 YTD Performance of U.S. Domiciled and Listed Businesses with a Stock Price above $5.00

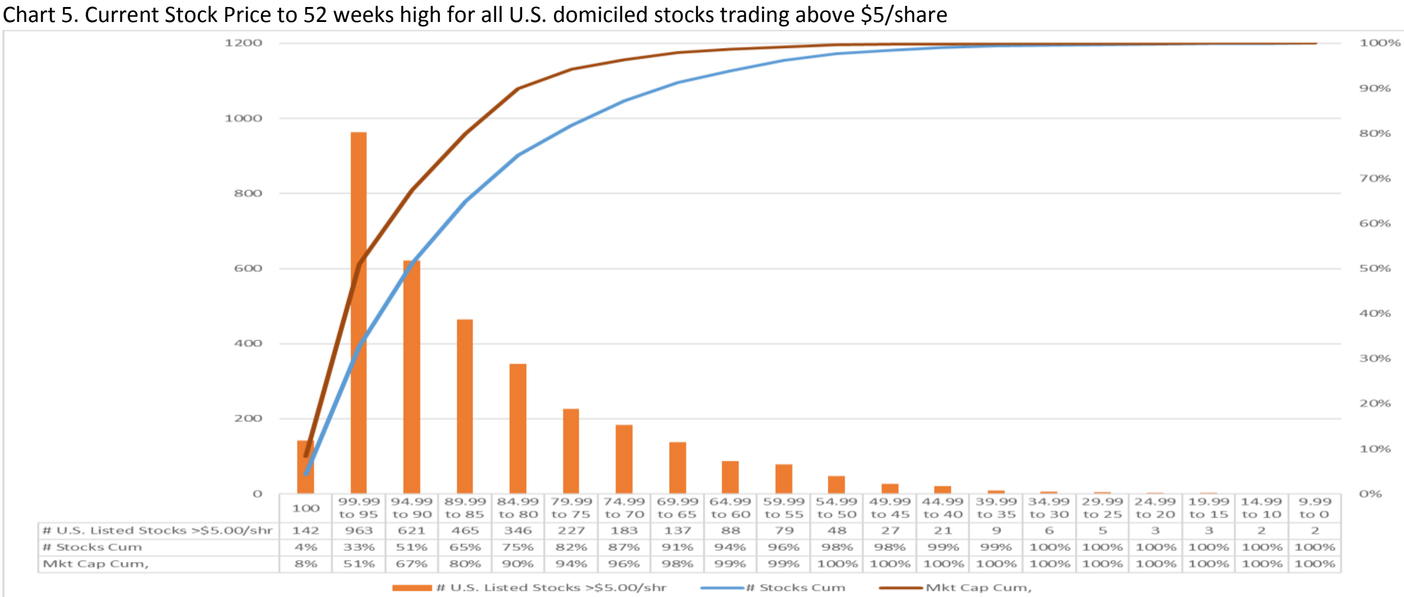


	>S&P 500 (6.32%)	6.32 > and >0	0> and >-5	-5 to -10	-10+
# Stocks	2271	725	437	345	1270
% stocks	45.0%	14.4%	8.7%	6.8%	25.2%
% Mkt Cap	56%	16%	13%	7%	9%

Source: Morningstar

Another approach to determine the potential pressure on stocks in September may be looking at current stock prices relative to their 52 weeks high. In chart 5 below we note the number of stocks and market cap with a current price to their 52 weeks high at 5 percentage point increments. As noted 4% of the stocks and 8% of the market cap is at their 52 weeks high. 51% of the stocks and 67% of the market cap are at 90% of their 52 weeks high. This may suggest that managers/investors may not have as many stocks with large losses to sell for tax reasons.

Chart 5. Current Stock Price to 52 weeks high for all U.S. domiciled stocks trading above $5/share



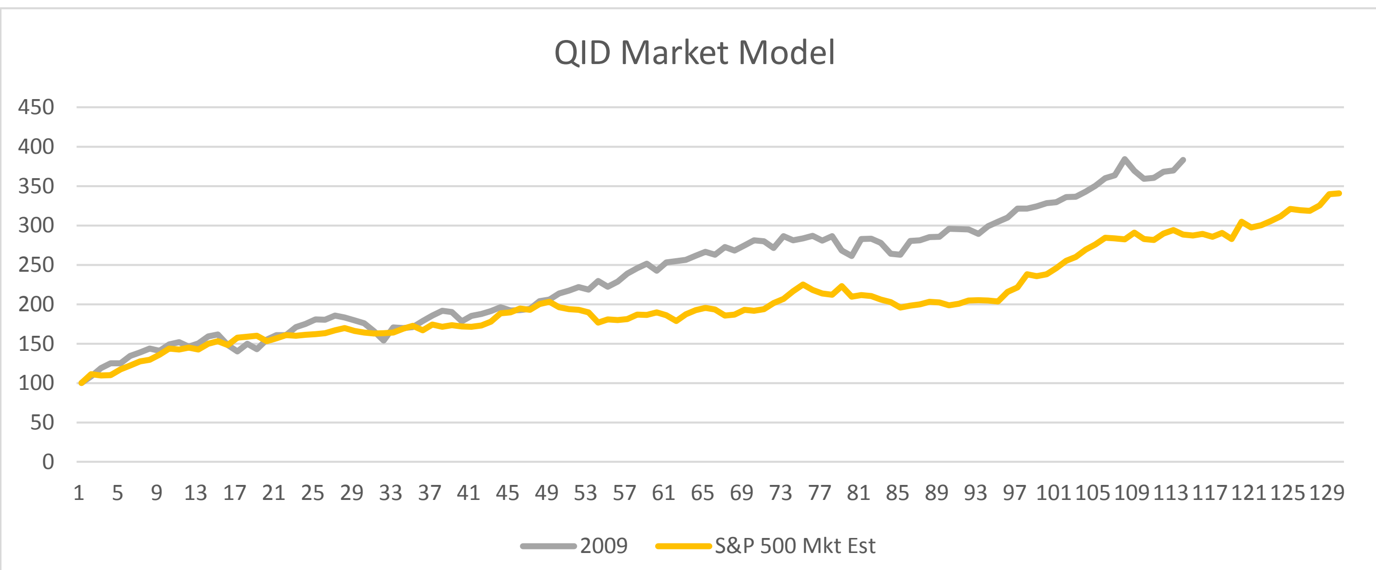
	100	99.99 to 95	94.99 to 90	89.99 to 85	84.99 to 80	79.99 to 75	74.99 to 70	69.99 to 65	64.99 to 60	59.99 to 55	54.99 to 50	49.99 to 45	44.99 to 40	39.99 to 35	34.99 to 30	29.99 to 25	24.99 to 20	19.99 to 15	14.99 to 10	9.99 to 0
# U.S. Listed Stocks >$5.00/shr	142	963	621	465	346	227	183	137	88	79	48	27	21	9	6	5	3	3	2	2
# Stocks Cum	4%	33%	51%	65%	75%	82%	87%	91%	94%	96%	98%	98%	99%	99%	100%	100%	100%	100%	100%	100%
Mkt Cap Cum,	8%	51%	67%	80%	90%	94%	96%	98%	99%	99%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Morningstar

Does the Presidential and mid-term election years effect September's performance? In presidential election years it appears that 28 of the 88 months were negative or 31.8% of the time, see chart 2 above. In mid-term election years, like 2018, 34/85 months were negative or 40% of the time. One of the reasons one may hear about the concerns of election years is that of the 5 negative calendar year returns, four or 80% occurred in election years. Given that we are already within 2 months of the election and the market remains positive, the more important question may be what tends to occur after the election? The stock market performance has been positive in 12 of the 15 periods or 80% of the post-election December performances. More importantly, in the 15 calendar years after an election 14, 93.3% of the time, the stock market has been positive. This would appear to bode well for 2019.

Therefore, we believe that investors should be taking this opportunity to re-allocate portfolios. In early January our report "This Market has legs for a Marathon" noted that although 2018 could be a trying year, long term we continued to be positive on the stock market into 2024. In our February report "Market Pullback: Much to do About Nothing" we felt that the market adjustment was typical after a spectacular January performance and that we could see a rebound of 7-17% within 6 months. As of the end of August the stock market had rebounded 13.7%. Although our market prediction model moved in lock step the first 4 years, the last 5 years actual performance has been running about 5% greater per year. For 2018 the model had predicted a return of +/- 5%, at 6.3% as of 8/31/2018 we seem to be in-line with the model. Expected return for 2019 is 15-25%.

Chart 6. QID Market Predictor Model



Our firm, Quantitative Investment Decisions, focuses on controlling down side risk which our founder has been a proponent of since the early 1990's. His accomplishments of using quantitative models to evaluate managers and focus on down-side risk was featured in Barron's October 8, 2001 article "In the Passing Lane". QID was founded with one objective in mind – to help investors protect assets in the event of an extended market downturn. While no investment model can predict the unexpected, QID's strategies help remove emotional and irrational behavior from the investment decision process. By limiting extreme downside risk and participating in the market upside, the intent is to outperform an appropriate benchmark over a market cycle. QID strategies are built using 100% quantitative, proprietary algorithms that identify and react to changing market conditions. Our strategies tend to provide a more asymmetric risk profile with reduced left tail risk, returns below zero, a feature typically absent from buy and hold portfolios. **QID provides investors the diversification that they need with the downside protection that they desire.**

QID provides tactical strategies for U.S. Sector Equity, Growth U.S. Equity, Aggressive Growth U.S. Equity, international equity, global fixed-income, and alternative assets. Our strategies provide Financial advisors the ability to use any of our strategies as a tactical complement to a client's portfolio or as a turnkey solution with diversification by selecting our Global Balanced Strategy. QID's Global Balanced Strategy can be customized to your client's risk profile. In addition, the QID Global Balanced/Retirement Growth Strategy provides broad exposure to the Global Markets. When fully invested and fully diversified, the strategy is allocated across U.S. Equity, Non-U.S. Equity, fixed-income and alternative asset classes such as commodities and real estate. The retirement strategies have a base allocation determined by a series of mean variance optimization models. For the growth strategy the base allocation is 60% U.S. equity, 20% Non-U.S. equity, 15% fixed-income and 5% alternative classes. The asset allocation is tactical in nature and driven by a series of proprietary models based on economic factors, valuation criteria and technical indicators. The equity allocation may be between 40-80%. Whereas, fixed-income and alternatives may be between 20-60%.

In the first and second quarter of 2018, QID was recognized by two performance measurement groups Informa/PSN and Pensions and Investments as one of the top 10 performing managers for its quarterly and/or one-year performance for its U.S. Growth strategy as well as its Global Balanced Fund.

For more information see our website at www.QIDLLC.com or call us at (239)-631-8912.

End of Report

Disclosures

Quantitative Investment Decisions, LLC ("QID") claims compliance with the Global Investment Performance Standards (GIPS®).

Firm Definition

Quantitative Investment Decisions, LLC ("QID" or the "Advisor") is registered investment advisor in the state of Florida organized as a Limited Liability Company ("LLC") under the laws of the State of Delaware, whose principle place of business is in Naples, FL. The entire investment team and critical operations staff became affiliated with QID on January 2, 2015.

QID reviews a total firm AUM report broken out by account on a quarterly basis to ensure that only actual assets managed, or sub-advised, by QID are included. All accounts deemed to be advisory only, hypothetical, or model in nature are excluded from total firm AUM. Total firm assets are all discretionary (whether fee-paying or not) for which QID has investment management responsibility, including assets managed by sub-advisors that QID has authority to select.

Obtaining a Compliant Presentation and the Firm's List of Composite Descriptions

A compliant presentation, including the performance data for the composite, may be obtained by contacting QID at 239.631.8912 or by emailing info@qidllc.com.

The Quantitative Investment Decisions' (QID) Tactical U.S. Equity Strategy, Tactical International Equity Strategy, Tactical U.S. Fixed Income Strategy, the Tactical Alternative Investments Strategy and Global Balanced Sector strategies are long-term growth portfolios that invests in Exchange Traded Funds (ETF) as markets are rising and scales to cash as markets weaken using a trading algorithm. Their objective is capital appreciation. The portfolios represent United States markets, international markets, United States fixed-income markets and a blend of commodities and REITs that constitute the alternative investments strategy. The U.S. Aggressive growth and Titans strategies are concentrated aggressive stock portfolios. The U.S. dollar is the currency used to express performance. QID claims compliance with the Global Investment Performance Standards (GIPS®). QID has been independently verified and its composites receive a quarterly performance examination by Ashland Partners & Company, LLP. The quantitative engine providing investment signals was initially developed by QID's founder, Ron Santangelo, in 2009. Benchmarks are used for comparison purposes to correlate to each portfolio. The returns for the indexes shown include dividend reinvestment. Individual client accounts may have experienced investment results during the corresponding time periods that were materially different from those of the composite returns. Performance data shown is past performance. Past performance is no guarantee of future results. Investments are subject to risk, and any of QID's investment strategies may lose money. QID's actively managed portfolios may underperform in bull or bear markets. The investment strategy presented is not appropriate for every investor and individual clients should review the terms, conditions and risk involved with specific products or services. The portfolio is constructed with Exchange Traded Funds that seek investment results that, before expenses, generally correspond to the price and yield of a particular index. There is no guarantee that the price and yield performance of the index can be fully matched. ETFs are subject to risks similar to those of stocks.

Risks

No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Asset allocation, nor diversification, does not guarantee a profit or protect against loss. Investment returns may fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. All investments include a risk of loss that clients should be prepared to endure. Quantitative Investment Decision's actively managed portfolio may underperform in bull or bear markets.

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