PART 1:

INDICATORS AND PATTERNS

JANUARY INDICATORS AND PATTERNS

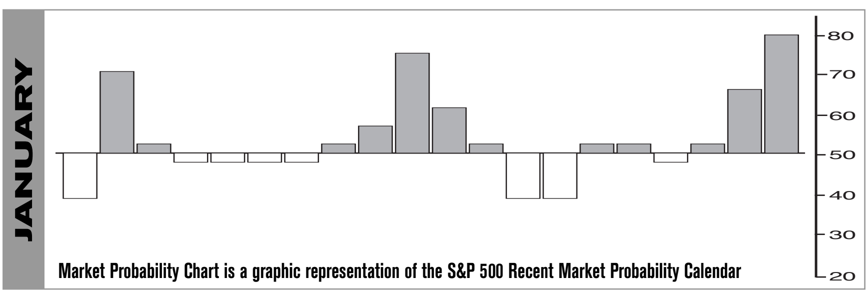
January Almanac

January, namesake month of the Roman god of doorways and passages, Janus, has quite a legendary reputation on Wall Street. Our January Barometer (JB), of course, garners much of the notoriety with its .806 batting average since 1938. As the opening of the New Year, January is host to many important events, indicators, and recurring market patterns. U.S. Presidents are inaugurated and present State of the Union Addresses. New Congresses convene. Financial analysts release annual forecasts. Residents of Earth return to work and school en mass after holiday celebrations. Small stocks are rumored to outperform large stocks in the nom de guerre, the "January Effect." And, the largest number of our seasonal indicators occurs in January: Day two marks the end of our "Santa Claus Rally," the "First Five Days" is our first glimpse at the trading environment for the coming year and a whole month gain or loss of the S&P 500 triggers our January Barometer. Every down January on the S&P 500 since 1938, without exception, has preceded a new or extended bear market, or a flat year.

Ranked number one on NASDAQ and the S&P 500 (second on the Dow) the last 35 years, January ends the year's best three-month span. NASDAQ averages a 4.0% gain since 1971. January's whole month performance is impressive but this dynamic month is also packed with important seasonality and telltale indicators. As the New Year commences cash flows from year-end bonuses and portfolio restructuring increases and floods the market. Analysts and market strategists try to decipher the market's tea leaves for the year ahead making January arguably the most important market month of the year.

Typical January

Based on our market probability models January has a rather distinct typical trading pattern. The first trading day of the year starts slow and is frequently down before the effects of holiday revelry fully wear off—but the Dow has been up 10 of the last 15. It can be an opportune time to jump into the market, while traders are still groggy, ahead of a much stronger day two. Arguably one of the better trading days of the year—the Dow has also been up 10 of the last 15, second trading days gain ground a large majority of the time with hefty gains as more sober traders turn over a "new leaf" of positivity and ramp-up buying in the New Year. Day one has improved recently, apparently in anticipation of day two's stellar record.



Over the next several days markets fluctuate with a slightly bearish bias. Then equities come alive around the tenth trading day of the month as the first mid-month 401(k) cash infusion is injected into the market. Buying also swells ahead of, and after, the first three-day weekend of the year, Martin Luther King Jr. Day. The Dow has been up 6 of the last 8 first days of expiration week—the day after MLK day is also an official bullish day. After this two-to-three day spurt stock prices sell off and meander until month-end. January expiration day has seen the Dow down five of the last six, but 2004 broke a 5-year losing streak. As January comes to a close stocks head higher with the last day of January being one of the strongest days of the year.

January Vital Statistics

	DJIA	S&P 500	NASDAQ	Russell 1K	Russell 2K
Rank	4	3	1	2	2
Up	37	35	24	18	16
Down	18	20	10	8	10
Avg % Change	1.4%	1.5%	3.9%	1.9%	2.7%
	4-Year Presidential Election Cycle Performance				
Post-Election Year	1.3%	1.3%	3.9%	3.3%	4.5%
Mid-Term Year	-0.6	-0.9	-0.6	-1.2	-1.8
Pre-Election Year	4.5	4.7	8.6	4	4.9
Election Year	0.5	0.7	3.4	1.1	3
	Best & Worst January				
	% Change	% Change	% Change	% Change	% Change
Best	1976 14.4	1987 13.2	1975 16.6	1987 12.7	1985 13.1
Worst	1960 –8.4	1790 –7.6	1990 –8.6	1990 –7.4	1990 –8.9
	Best & Worst January Weeks				
Best	1/9/76 6.1	1/31/75 5.5	1/12/01 9.1	1/9/87 5.3	1/9/87 7.0
Worst	1/24/03 –5.3	1/28/00 –5.6	1/28/00 –8.2	1/28/00 –5.5	1/28/00 –5.5
	Best & Worst January Days				
Best	1/17/91 4.6	1/3/01 5.0	1/3/01 14.2	1/3/01 5.3	1/3/01 4.7
Worst	1/8/88 –6.9	1/8/88 –6.8	1/2/01 –7.2	1/8/88 –6.1	1/2/01 –4.4
	First Trading Day of Expiration Week 1990-2005				
Record (#Up - #Down)	10-6	7-9	8-8	6-10	8-8
Current streak	U3	U2	U2	U2	U2
Avg % Change	–0.03	0.04	0.09	0.01	0.1
	Options Expiration Day 1990-2005				
Record (#Up - #Down)	9-7	8-8	10-6	8-8	9-7
Current streak	D1	D1	D1	D1	D1
Avg % Change	–0.03	0.01	–0.1	0.0	–0.1
	Options Expiration Week 1990-2005				
Record (#Up - #Down)	8-8	7-9	11-5	7-9	10-6
Current streak	D1	D1	D1	D1	D1
Avg % Change	0.2	0.5	0.8	0.5	0.7
	Week After Options Expiration 1990-2005				
Record (#Up - #Down)	8-8	10-6	9-7	10-6	11-5
Current streak	U1	U2	U1	U2	U2
Avg % Change	–0.6	–0.3	–0.03	–0.3	–0.02
	2006 Bullish Days based on data from 1984 to 2004				
	4, 17, 18, 25, 26, 30, 31	4,17, 18, 30, 31 18, 19, 26, 27, 31	4, 5, 6, 13, 17 31	4, 17, 18, 26, 30 18, 19, 26, 30, 31	4, 5, 6, 12, 13, 17
	2006 Bearish Days based on data from 1984 to 2004				
	19, 20, 23, 24	3, 20, 23	20	3, 20, 23	3, 20, 25

Dow & S&P 1950-June 2005, NASDAQ 1971-June 2005, Russell 1K & 2K 1979-June 2005. Options data 1990 through August 2005. Bullish/Bearish days based on index rising or falling 60% of the time on a particular trading day 1984-2004 (see pages 68-75).

January's First Five Days "Early Warning System"

Two early warning indicators surface the first several days of the month, the Santa Claus Rally and January's First Five Days. The seven-day Santa Claus Rally, which averages 1.6% for the S&P 500 since 1969, ends on the second trading day of January. This brief, reliable indicator is more significant in its absence. Times when this typical end-of-year bullishness has been missing have preceded bear markets or corrections.

January's First Five Days can provide a preliminary gauge of the year to come—especially when they are up. Since 1950, 35 up First Five Days on the S&P 500 were followed by 30 full-year gains for an 85.7% accuracy ratio and a 13.8% average gain in those 35 years. The five exceptions include flat 1994 and four related to war. Vietnam military spending delayed start of 1966 bear market. Ceasefire imminence early in 1973 raised stocks temporarily. Saddam Hussein turned 1990 into a bear. The war on terrorism, instability in the Middle East, and corporate malfeasance shaped 2002 into one of the worst years on record.

The 20 down First Five Days were not indicative—up 10, down 10. In Post-Election Years however, down First Five Days can be telling. Eight of the last thirteen times the S&P 500 posted a loss for January's First Five Days—six of these eight were followed by full-year losses averaging -11.1%. Five Post-Election First Five Days showed gains and four years followed suit gaining 22.6% on average.

In Midterm Election Years this indicator has had a spotty record—almost a contrary indicator. In the last 14 Midterm Years only six full years followed the direction of the First Five Days and none did in the last seven. The full-month January Barometer (see below) has a better Midterm record of 64.3% accurate.

Pre-Election years start with a stacked deck—none have been down since 1939. Only two First Five Days were down (1955 and 1999). Both years posted S&P 500 gains of over 26%. Election Years have followed the direction of the First Five Days 12 of the last 14 times though the S&P 500 has been down only twice in Election Years since 1950.

The Incredible January Barometer

Devised by Yale Hirsch in 1972, our January Barometer has registered only five major errors since 1950 for a 90.9% accuracy ratio. This indicator adheres to propensity that as the S&P goes in January, so goes the year. Of the five major errors Vietnam affected 1966 and 1968; 1982 saw the start of a major Bull market in August; two January rate cuts and 9/11 affected 2001; and the market in January 2003 was held down by the anticipation of military action in Iraq. (*Almanac Investor* newsletter subscribers were warned at the time not to heed the January Barometer's negative reading as it was being influenced by Iraqi concerns.) Including the six flat years yields a .800 batting average. Bear markets began or continued when Januarys suffered a loss. (See Down Januarys, page 12.)

Excluding 2001, full years followed January's direction in the last 13 Post-Election years. Midterm Years tracked January's direction 9 of the last 14. With the dice loaded for Pre-Election Years as mentioned above, the JB has a 13-and-1 record,

THE FIRST-FIVE-DAYS-IN-JANUARY INDICATOR

Chronological Data

	Previous Year's Close	January 5th Day	5-Day Change	Year Change
1950	16.76	17.09	2.0%	21.8%
1951	20.41	20.88	2.3	16.5
1952	23.77	23.91	0.6	11.8
1953	26.57	26.33	—0.9	— 6.6
1954	24.81	24.93	0.5	45.0
1955	35.98	35.33	—1.8	26.4
1956	45.48	44.51	—2.1	2.6
1957	46.67	46.25	—0.9	—14.3
1958	39.99	40.99	2.5	38.1
1959	55.21	55.40	0.3	8.5
1960	59.89	59.50	—0.7	— 3.0
1961	58.11	58.81	1.2	23.1
1962	71.55	69.12	—3.4	—11.8
1963	63.10	64.74	2.6	18.9
1964	75.02	76.00	1.3	13.0
1965	84.75	85.37	0.7	9.1
1966	92.43	93.14	0.8	—13.1
1967	80.33	82.81	3.1	20.1
1968	96.47	96.62	0.2	7.7
1969	103.86	100.80	—2.9	—11.4
1970	92.06	92.68	0.7	0.1
1971	92.15	92.19	0.04	10.8
1972	102.09	103.47	1.4	15.6
1973	118.05	119.85	1.5	—17.4
1974	97.55	96.12	—1.5	—29.7
1975	68.56	70.04	2.2	31.5
1976	90.19	94.58	4.9	19.1
1977	107.46	105.01	—2.3	—11.5
1978	95.10	90.64	—4.7	1.1
1979	96.11	98.80	2.8	12.3
1980	107.94	108.95	0.9	25.8
1981	135.76	133.06	—2.0	— 9.7
1982	122.55	119.55	—2.4	14.8
1983	140.64	145.23	3.3	17.3
1984	164.93	168.90	2.4	1.4
1985	167.24	163.99	—1.9	26.3
1986	211.28	207.97	—1.6	14.6
1987	242.17	257.28	6.2	2.0
1988	247.08	243.40	—1.5	12.4
1989	277.72	280.98	1.2	27.3
1990	353.40	353.79	0.1	— 6.6
1991	330.22	314.90	—4.6	26.3
1992	417.09	418.10	0.2	4.5
1993	435.71	429.05	—1.5	7.1
1994	466.45	469.90	0.7	— 1.5
1995	459.27	460.83	0.3	34.1
1996	615.93	618.46	0.4	20.3
1997	740.74	748.41	1.0	31.0
1998	970.43	956.04	—1.5	26.7
1999	1229.23	1275.09	3.7	19.5
2000	1469.25	1441.46	—1.9	—10.1
2001	1320.28	1295.86	—1.8	—13.0
2002	1148.08	1160.71	1.1	—23.4
2003	879.82	909.93	3.4	26.4
2004	1111.92	1131.91	1.8	9.0
2005	1211.92	1186.19	—2.1	??

Ranked By Performance

Rank		5-Day Change	Year Change
1	1987	6.2%	2.0%
2	1976	4.9	19.1
3	1999	3.7	19.5
4	2003	3.4	26.4
5	1983	3.3	17.3
6	1967	3.1	20.1
7	1979	2.8	12.3
8	1963	2.6	18.9
9	1958	2.5	38.1
10	1984	2.4	1.4
11	1951	2.3	16.5
12	1975	2.2	31.5
13	1950	2.0	21.8
14	2004	1.8	9.0
15	1973	1.5	—17.4
16	1972	1.4	15.6
17	1964	1.3	13.0
18	1961	1.2	23.1
19	1989	1.2	27.3
20	2002	1.1	—23.4
21	1997	1.0	31.0
22	1980	0.9	25.8
23	1966	0.8	—13.1
24	1994	0.7	— 1.5
25	1965	0.7	9.1
26	1970	0.7	0.1
27	1952	0.6	11.8
28	1954	0.5	45.0
29	1996	0.4	20.3
30	1959	0.3	8.5
31	1995	0.3	34.1
32	1992	0.2	4.5
33	1968	0.2	7.7
34	1990	0.1	— 6.6
35	1971	0.04	10.8
36	1960	—0.7	— 3.0
37	1957	—0.9	—14.3
38	1953	—0.9	— 6.6
39	1974	—1.5	—29.7
40	1998	—1.5	26.7
41	1988	—1.5	12.4
42	1993	—1.5	7.1
43	1986	—1.6	14.6
44	2001	—1.8	—13.0
45	1955	—1.8	26.4
46	2000	—1.9	—10.1
47	1985	—1.9	26.3
48	1981	—2.0	— 9.7
49	1956	—2.1	2.6
50	2005	—2.1	??
51	1977	—2.3	—11.5
52	1982	—2.4	14.8
53	1969	—2.9	—11.4
54	1962	—3.4	—11.8
55	1991	—4.6	26.3
56	1978	—4.7	1.1

Based on S&P 500

AS JANUARY BAROMETER GOES, SO GOES THE YEAR

Market Performance In January

	Previous Year's Close	January Close	January Change	Year Change
1950	16.76	17.05	1.7%	21.8%
1951	20.41	21.66	6.1	16.5
1952	23.77	24.14	1.6	11.8
1953	26.57	26.38	—0.7	— 6.6
1954	24.81	26.08	5.1	45.0
1955	35.98	36.63	1.8	26.4
1956	45.48	43.82	—3.6	2.6
1957	46.67	44.72	—4.2	—14.3
1958	39.99	41.70	4.3	38.1
1959	55.21	55.42	0.4	8.5
1960	59.89	55.61	—7.1	— 3.0
1961	58.11	61.78	6.3	23.1
1962	71.55	68.84	—3.8	—11.8
1963	63.10	66.20	4.9	18.9
1964	75.02	77.04	2.7	13.0
1965	84.75	87.56	3.3	9.1
1966	92.43	92.88	0.5	—13.1 **X**
1967	80.33	86.61	7.8	20.1
1968	96.47	92.24	—4.4	7.7 **X**
1969	103.86	103.01	—0.8	—11.4
1970	92.06	85.02	—7.6	0.1
1971	92.15	95.88	4.0	10.8
1972	102.09	103.94	1.8	15.6
1973	118.05	116.03	—1.7	—17.4
1974	97.55	96.57	—1.0	—29.7
1975	68.56	76.98	12.3	31.5
1976	90.19	100.86	11.8	19.1
1977	107.46	102.03	—5.1	—11.5
1978	95.10	89.25	—6.2	1.1
1979	96.11	99.93	4.0	12.3
1980	107.94	114.16	5.8	25.8
1981	135.76	129.55	—4.6	— 9.7
1982	122.55	120.40	—1.8	14.8 **X**
1983	140.64	145.30	3.3	17.3
1984	164.93	163.41	—0.9	1.4
1985	167.24	179.63	7.4	26.3
1986	211.28	211.78	0.2	14.6
1987	242.17	274.08	13.2	2.0
1988	247.08	257.07	4.0	12.4
1989	277.72	297.47	7.1	27.3
1990	353.40	329.08	—6.9	— 6.6
1991	330.22	343.93	4.2	26.3
1992	417.09	408.79	—2.0	4.5
1993	435.71	438.78	0.7	7.1
1994	466.45	481.61	3.3	— 1.5
1995	459.27	470.42	2.4	34.1
1996	615.93	636.02	3.3	20.3
1997	740.74	786.16	6.1	31.0
1998	970.43	980.28	1.0	26.7
1999	1229.23	1279.64	4.1	19.5
2000	1469.25	1394.46	—5.1	—10.1
2001	1320.28	1366.01	3.5	—13.0 **X**
2002	1148.08	1130.20	—1.6	—23.4
2003	879.82	855.70	—2.7	26.4 **X**
2004	1111.92	1131.13	1.7	9.0
2005	1211.92	1181.27	—2.5	??

Ranked By Performance

Rank		January Change	Year Change
1	1987	13.2%	2.0%
2	1975	12.3	31.5
3	1976	11.8	19.1
4	1967	7.8	20.1
5	1985	7.4	26.3
6	1989	7.1	27.3
7	1961	6.3	23.1
8	1997	6.1	31.0
9	1951	6.1	16.5
10	1980	5.8	25.8
11	1954	5.1	45.0
12	1963	4.9	18.9
13	1958	4.3	38.1
14	1991	4.2	26.3
15	1999	4.1	19.5
16	1971	4.0	10.8
17	1988	4.0	12.4
18	1979	4.0	12.3
19	2001	3.5	—13.0 **X**
20	1965	3.3	9.1
21	1983	3.3	17.3
22	1996	3.3	20.3
23	1994	3.3	— 1.5 flat
24	1964	2.7	13.0
25	1995	2.4	34.1
26	1972	1.8	15.6
27	1955	1.8	26.4
28	1950	1.7	21.8
29	2004	1.7	9.0
30	1952	1.6	11.8
31	1998	1.0	26.7
32	1993	0.7	7.1
33	1966	0.5	—13.1 **X**
34	1959	0.4	8.5
35	1986	0.2	14.6
36	1953	—0.7	— 6.6
37	1969	—0.8	—11.4
38	1984	—0.9	1.4 flat
39	1974	—1.0	—29.7
40	2002	—1.6	—23.4
41	1973	—1.7	—17.4
42	1982	—1.8	14.8 **X**
43	1992	—2.0	4.5 flat
44	2005	—2.5	??
45	2003	—2.7	26.4 **X**
46	1956	—3.6	2.6 flat
47	1962	—3.8	—11.8
48	1957	—4.2	—14.3
49	1968	—4.4	7.7 **X**
50	1981	—4.6	— 9.7
51	1977	—5.1	—11.5
52	2000	—5.1	—10.1
53	1978	—6.2	— 1.1 flat
54	1990	—6.9	— 6.6
55	1960	—7.1	— 3.0
56	1970	—7.6	0.1 flat

X = 5 major errors

Based on S&P 500

the only loss in 2003 due to exogenous events ahead of the military action in Iraq. Ten of the last 14 Election years have followed January's course.

1933 "Lame Duck" Amendment — Why JB Works

Passage of the Twentieth "Lame Duck" Amendment to the Constitution in 1933 created the January Barometer. Since then it has essentially been "As January goes, so goes the year." January's direction has correctly forecasted the major trend for the market in most of the subsequent years.

Prior to 1934, newly elected senators and representatives did not take office until December of the following year, 13 months later (except when new presidents were inaugurated). Defeated congressmen stayed in Congress for all of the following session. They were known as "lame ducks."

Since 1934, Congress convenes in the first week of January and includes those members newly elected the previous November. Inauguration Day was also moved up from March 4 to January 20.

January's prognostic power is attributed to the host of important events transpiring during the month: new Congresses convene; the president gives the State of the Union message, presents the annual budget, and sets national goals and priorities.

These events clearly affect our economy and Wall Street and much of the world. Add to that January's increased cash inflows, portfolio adjustments, and market strategizing and it becomes apparent how prophetic January can be. Switch these events to any other month and chances are the January Barometer would become a memory.

The table at right shows the January Barometer in odd years. In 1935 and 1937, the Democrats already had the most lopsided Congressional margins in history, so when these two Congresses convened it was anticlimactic.

JANUARY BAROMETER (ODD YEARS)

January % Change	12-Month % Change	Same	Opposite
– 4.2%	41.2%		1935
3.8	– 38.6		1937
– 6.9	– 5.4	1939	
– 4.8	– 17.9	1941	
7.2	19.4	1943	
1.4	30.7	1945	
2.4	N/C	1947	
0.1	10.3	1949	
6.1	16.5	1951	
– 0.7	– 6.6	1953	
1.8	26.4	1955	
– 4.2	– 14.3	1957	
0.4	8.5	1959	
6.3	23.1	1961	
4.9	18.9	1963	
3.3	9.1	1965	
7.8	20.1	1967	
– 0.8	– 11.4	1969	
4.0	10.8	1971	
– 1.7	– 17.4	1973	
12.3	31.5	1975	
– 5.1	– 11.5	1977	
4.0	12.3	1979	
– 4.6	– 9.7	1981	
3.3	17.3	1983	
7.4	26.3	1985	
13.2	2.0	1987	
7.1	27.3	1989	
4.1	26.3	1991	
0.7	7.1	1993	
2.4	34.1	1995	
6.1	31.0	1997	
4.1	19.5	1999	
3.5	– 13.0		2001
– 2.7	26.4		2003
– 2.5	??	2005?	2005?

12 month's % change includes January's % change
Based on S&P 500

The January Barometer in subsequent odd-numbered years had compiled a perfect record until two January interest rate cuts and 9/11 affected 2001 and the anticipation of military action in Iraq held the market down in January 2003. January is compared to prior "New Congress Barometers" below.

Almanac Investor Platform subscribers are emailed the official final results of the January Barometer after the close at the end of every January.

New Congress Barometers

Between 1901 and 1933 the market's direction in January was similar to that of the whole year 19 times and different 14 times. Comparing January to the 11 subsequent months, 16 were similar and 17 dissimilar.

New Congress Barometers
Prior to 1933 "Lame Duck" Amendment (Odd Years)

NEWLY ELECTED PRESIDENT INAUGURATED MARCH 4TH

March % Change	12 Month's % Change	Same	Opposite
5.2%	11.6%	1909	
0.7	2.4	1913	
1.0	14.0	1921	
-2.7	**-14.6**	1929	
7.8	101.3	1933	

12 month's % change includes March

NEW CONGRESS CONVENES FIRST WEEK IN DECEMBER
13 MONTHS AFTER ELECTION

November % Change	12 Month's % Change	Same	Opposite
0.9%	2.5%	1901	
-1.8	39.7		1903*
7.3	10.9	1905	
1.2	4.3	1907	
0.7	8.9	1915	
4.3	17.5	1923	
3.5	3.9	1925	
9.1	38.8	1927	
-11.0	**-41.3**	1931	

**Panic of 1903 ends 11/9 as Congress convenes (off 37.7%)*
12 month's % change includes November

NEW CONGRESS CONVENES IN APRIL OR MAY
EARLIER THAN USUAL, NO CHANGE IN PRESIDENCY

Month's % Change	12 Month's % Change	Same	Opposite
0.5%	6.0%	1911	
-2.3	**-19.6**	1917	
13.6	0.7	1919**	

*** Wilson in Europe 6 months; Post-Armistice surge (up 30.9% Feb to May)*
12 month's % change includes applicable month

Tables based on Dow Jones industrial average (1901-1933)

Prior to the Twentieth Amendment in the last century, we had a "March Barometer" when newly-elected presidents (Taft, Wilson, Harding, Hoover, and Roosevelt) were inaugurated on March 4. Newly elected Congresses convened in March for the occasion. Score 5 out of 5 for the "March Barometer" prior to the Twentieth Amendment.

Between 1900 and 1933, eight new Congresses convened on the first Monday in December (13 months after the election). But because of annual year-end reinvestment, it would be misleading to use December as a barometer. We used a "November Barometer" instead and the score was almost perfect. In 1903, the only time Congress actually convened in November, the barometer was in error. The Panic of 1903 took the Dow down 37.7% and the new Congress was called in one month earlier, ostensibly to "stem the tide." The Panic ended on November 9, the day Congress convened, but the month remained negative while the market moved up over the next 11 months.

Three other new Congresses were convened in other months for different reasons—April in 1911 and 1917 and May in 1919. The record is a double bulls-eye for the "April Barometer." As for the one-shot "May Barometer" a post-Armistice 30.9% surge in four months (February to May) took May up 13.6% but the 12-month period (including May) almost lost it all. President Wilson spent six months in Europe trying to win the peace.

This "New Congress Barometer" performed rather impressively until the passage of the Twentieth Amendment. Since then its successor, the January Barometer has compiled the best record in odd-numbered years of all other known indicators.

JB versus All

Over the years there has been much debate regarding the efficacy of our January Barometer. Skeptics never relent and we don't rest on our laurels. Disbelievers in the January Barometer continue to point to the fact that we include January's S&P 500 change in the full-year results and that detracts from the January Barometer's predicative power for the rest of the year.

Others attempt to discredit the January Barometer by going further back in time. A certain diligent newsletter watchdog, who does impeccable and thorough research, tested the January Barometer back to 1897. While we respect and appreciate the depth of the research, it fully misses the point and the basis for the January Barometer. (Hosts of others have gone down the same dead end street.) Almanac Investors know there would be no January Barometer without the passage of the twentieth "Lame Duck" Amendment to the constitution in 1933.

After the Lame Duck Amendment was ratified in 1934 it took a few years for the Democrat's heavy congressional margins to even out and for the impact of this tectonic governing shift to take effect. Hence our January Barometer starts in 1938. In light of all this debate and skepticism we have compared the January Barometer results along with the full year results, the following 11 months' results, and the subsequent 12 months' results to all other "Monthly Barometers" using the Dow Jones Industrials, the S&P 500, and the NASDAQ Composite.

Here's what we found going back to 1938. There were only six major errors. In addition to the five major errors mentioned above, in 1946 the market dropped sharply after the Employment Act was passed by Congress, overriding Truman's veto, and Congress authorized $12 billion for the Marshall Plan. Including these six errors, the accuracy ratio is 91.0% for the 67-year period. Including the 7 flat years the ratio is 80.6%—still effective.

For the benefit of the skeptics, the accuracy ratio calculated on the performance of the following 11 months is still solid. Including all errors—major and flat years—the ratio is still a respectable 73.1%.

Now for the even better news: In the 43 up Januarys there were only three major errors for a 93.0% accuracy ratio. These years went on to post 16.6% average full-year gains and 12.1% February-to-December gains.

Now let's compare the January Barometer to all other "Monthly Barometers." For the accompanying table we went back to 1938 for the S&P 500 and the Dow—the year in which the January Barometer came to life—and back to 1971 for NASDAQ when that index took its current form.

The accuracy ratios listed are based on whether or not the given month's move—up or down—was followed by a move in the same direction for the whole period. For example, in the 67 years of data for the S&P 500 for the January Barometer, 54 years moved in the same direction for 80.6% accuracy. (Maybe Steinbrenner can find a hitter that bats .806.)

The Calendar Year ratio is based on the month's percent change and the whole year's percent change; i.e., we compare December 2003's percent change to the change for 2003 as a whole. By contrast, the 11-month ratio compares the month's move to the move of the following eleven months. February's change is compared to the change from March to January. The 12-month change compares the month's change to the following

January Barometer versus All

Monthly S&P Barometers Accuracy Ratio
Since 1938

	Calendar Year	11-month	12-month
January	80.6%	73.1%	74.6%
February	64.2%	59.7%	59.7%
March	65.7%	55.2%	50.7%
April	70.1%	62.7%	62.7%
May	62.7%	53.7%	55.2%
June	67.2%	58.2%	55.2%
July	58.2%	50.7%	50.7%
August	62.7%	53.7%	56.1%
September	62.7%	47.0%	47.0%
October	55.2%	47.0%	48.5%
November	61.2%	54.5%	54.5%
December	70.1%	59.1%	54.5%

Monthly Dow Barometers Accuracy Ratio
Since 1938

	Calendar Year	11-month	12-month
January	82.1%	71.6%	65.7%
February	61.2%	55.2%	56.7%
March	58.2%	50.7%	50.7%
April	59.7%	50.7%	49.3%
May	58.2%	52.2%	53.7%
June	62.7%	58.2%	59.7%
July	58.2%	50.7%	52.2%
August	64.2%	52.2%	60.6%
September	58.2%	40.9%	42.4%
October	47.8%	47.0%	53.0%
November	61.2%	57.6%	56.1%
December	68.7%	50.0%	53.0%

Monthly NASDAQ Barometers Accuracy Ratio
Since 1971

	Calendar Year	11-month	12-month
January	76.5%	76.5%	70.6%
February	61.8%	58.8%	52.9%
March	67.6%	58.8%	52.9%
April	82.4%	64.7%	64.7%
May	70.6%	61.8%	64.7%
June	64.7%	61.8%	61.8%
July	58.8%	55.9%	52.9%
August	58.8%	50.0%	57.6%
September	76.5%	54.5%	51.5%
October	52.9%	45.5%	51.5%
November	73.5%	60.6%	60.6%
December	61.8%	66.7%	66.7%

twelve months. February's change is compared to the change from March to the next February.

Though the January Barometer is based on the S&P 500 we thought it would clear the air to look at the other two major averages as well. You can see for yourself in the following table that no other month comes close to January in forecasting prowess.

There are a few interesting anomalies to point out though. On a calendar year basis the Dow in January is one notch above the S&P. For NASDAQ April sticks out as well on a calendar year basis, but that is after four months have passed. Besides, you want to know how the year might pan out following January, not April. And no other month has any basis for being a barometer. January is loaded with reasons.

Being the first month of the year it is the time when people readjust their portfolios, rethink their outlook for the coming year and try to make a fresh start. There is also an increase in cash that flows into the market in January, making market direction even more important. Then there is all the information Wall Street has to digest: The State of the Union Address, FOMC meetings, fourth-quarter GDP, earnings, and the plethora of other economic and market data. We'll continue to delve deeper into the January Barometer (and other indicators) but for now we are content that its results will refute any representations to the contrary.

Down Januarys Followed by Further Declines

Though some years posted full-year and 11-month gains, every down January since 1938 was followed by a new or continuing bear market or a flat year. Excluding 1956, down Januarys were followed by substantial declines averaging –13.6%, providing excellent buying opportunities in most years.

Down Januarys are harbingers of trouble ahead, in the economic, political, or military arenas. Eisenhower's heart attack in 1955 cast doubt on whether he could run in 1956 — a flat year. The two other election years with down Januarys were also flat. Eleven bear markets began and four continued into second years with poor Januarys. 1968 started down as we were mired in Vietnam, but Johnson's "bombing halt" changed the climate. January 2003 closed down in the face of imminent military action in Iraq, and the market triple-bottomed in March just before U.S. led forces began their blitz to Baghdad. The market put three years of the bear behind it as the fall of Baghdad combined with pre-election and recovery forces to fuel 2003 into a banner year.

FROM DOWN JANUARY S&P CLOSES TO LOW NEXT 11 MONTHS

Year	January Close	% Change	11-Month Low	Date of Low	Jan Close to Low %	% Feb to Dec	Year % Change	
1939	12.30	– 6.9%	10.18	8-Apr	– 17.2%	1.5%	– 5.5	cont. bear
1940	12.05	– 3.5	8.99	10-Jun	– 25.4	– 12.2	– 15.3	cont. bear
1941	10.07	– 4.8	8.37	29-Dec	– 16.9	– 13.7	– 17.9	cont. bear
1948	14.69	– 4.0	13.84	14-Feb	– 5.8	3.5	– 0.7	FLAT
1953	26.38	– 0.7	22.71	14-Sep	– 13.9	– 6.0	– 6.6	bear
1956	43.82	– 3.6	44.10	28-May	0.9	6.5	2.6	FLAT
1957	44.72	– 4.2	38.98	22-Oct	– 12.8	– 10.6	– 14.3	bear
1960	55.61	– 7.1	52.30	25-Oct	– 6.0	4.5	– 3.0	bear
1962	68.84	– 3.8	52.32	26-Jun	– 24.0	– 8.3	– 11.8	bear
1968	92.24	– 4.4	87.72	5-Mar	– 4.9	12.6	7.7	cont. bear
1969	103.01	– 0.8	89.20	17-Dec	– 13.4	– 10.6	– 11.4	bear
1970	85.02	– 7.6	69.20	26-May	– 18.6	8.4	0.1	cont. bear
1973	116.03	– 1.7	92.16	5-Dec	– 20.6	– 15.9	– 17.4	bear
1974	96.57	– 1.0	62.28	3-Oct	– 35.5	– 29.0	– 29.7	bear
1977	102.03	– 5.1	90.71	2-Nov	– 11.1	– 6.8	– 11.5	bear
1978	89.25	– 6.2	86.90	6-Mar	– 2.6	7.7	1.1	cont. bear
1981	129.55	– 4.6	112.77	25-Sep	– 13.0	– 5.4	– 9.7	bear
1982	120.40	– 1.8	102.42	12-Aug	– 14.9	16.8	14.8	cont. bear
1984	163.42	– 0.9	147.82	24-Jul	– 9.5	2.3	1.4	FLAT
1990	329.07	– 6.9	295.46	11-Oct	– 10.2	0.4	– 6.6	bear
1992	408.79	– 2.0	394.50	8-Apr	– 3.5	6.6	4.5	FLAT
2000	1394.46	– 5.1	1264.74	20-Dec	– 9.3	– 5.3	– 10.1	bear
2002	1130.20	– 1.6	776.76	9-Oct	– 31.3	– 22.2	– 23.4	cont. bear
2003	855.70	– 2.7	800.73	11-Mar	– 6.4	29.9	26.4	cont. bear
2005	1181.27	– 2.5	1137.50	20-Apr	– 3.7	***At Presstime - not in totals or average***		
				Totals	**– 325.9%**	**– 45.3%**	**– 136.3%**	
				Average	**– 13.6%**	**– 1.9%**	**– 5.7%**	

The So-Called "January Effect"

Small cap stocks have generally outperformed large caps by the greatest margin in January. This market phenomenon is known as the January Effect. Anticipation of this pattern has caused much of the "effect" to occur in December and November and a reversal often takes place mid-January after which small caps resume leadership through the first quarter. Taking quick small-cap gains off the table or protecting them with trailing stops in January is advisable. This strategy can also be applied to our Free Lunch menu of year-end bargain stocks, emailed to subscribers every December.

FEBRUARY INDICATORS AND PATTERNS

February Almanac

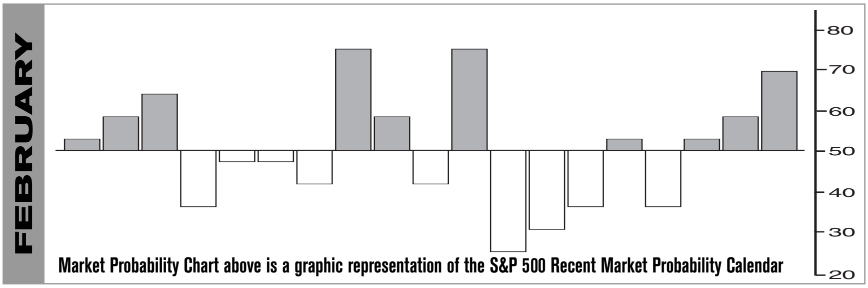
January is a hard act to follow and the short, cold month of February is nearly forgotten on Wall Street and barely leaves a mark. Usually the weak link in the Best Six months, February tends to follow the current trend though big January gains often correct or consolidate during the month of Valentines and Presidents as Wall Street evaluates and adjusts market outlooks based on January's performance. Since 1950 significant January S&P 500 gains of 2% correct or consolidate in February 68% of the time. January losses are followed by February losses 76% of the time.

Over the years, February is up only slightly more than half the time and, depending on the index, up or down marginally on average. However, small cap stocks, benefiting from the "January Effect" carryover, outpace large cap stocks in February. The Russell 2000 index of small cap stocks turns in an average gain of 1.5% in February since 1979—the fifth best month for that benchmark.

Post-election year Februarys fare worse with the major indices posting average losses. It is the worst NASDAQ month in post-election years averaging a –4.1% loss, down seven of the last nine times. Midterm and pre-election year Februarys do not exhibit any major fluctuations from the month's overall performance. Election year Februarys on the other hand are a standout for NASDAQ and the Russell 2000. February is NASDAQ's best month in election years with an average 3.4% gain, up seven of the last nine. Election year Februarys rank second for the Russell 2000 averaging 3.4%, up five of the last seven.

Typical February

After January's usually strong finish, February opens cautiously for large cap stocks perhaps in tribute to the Romans who named the month after their month-long feast of Februalia which they celebrated in the spring as their "new year." It was a time period when sacrifices were made to atone for sins. Day one trades up about half of the time with a slight gain, followed by a second day that advances more often than not yet averages a minor net loss. Over the last ten years February's first trading day has improved dramatically—off only twice on the S&P, averaging 0.46%. This runs with the pattern in recent years of first-trading-day-of-the-month-strength. Strength builds mildly over the third day but fades



Market Probability Chart above is a graphic representation of the S&P 500 Recent Market Probability Calendar

after that until the stronger eighth and eleventh trading days. The second half of the month struggles until the last day. NASDAQ stocks are much more solid the first five days of the month and small cap Russell 2000 stocks are robust all month long. Monday of option expiration week is dramatically bullish with the S&P 500 up twelve in a row.

February Vital Statistics

	DJIA	S&P 500	NASDAQ	Russell 1K	Russell 2K
Rank	8	11	7	11	5
Up	32	30	19	16	16
Down	24	26	16	11	11
Avg % Change	0.2%	–0.02%	0.6%	0.3%	1.5%
	4-Year Presidential Election Cycle Performance				
Post-Election Year	–0.9%	–1.4%	–4.1%	–1.0%	–1.0%
Mid-Term Year	0.7	0.4	0.3	0.7	1.5
Pre-Election Year					
Election Year	–0.1	0.1	3.4	0.3	3.4
	Best & Worst February				
	% Change	**% Change**	**% Change**	**% Change**	**% Change**
Best	1986 8.8	1986 7.1	2000 19.2	1986 7.2	2000 16.4
Worst	2000 –7.4	2001 –9.2	2001 –22.4	2001 –9.5	1999 –8.2
	Best & Worst February Weeks				
Best	2/22/74 4.4	2/8/91 4.8	2/4/00 9.2	2/8/91 4.6	2/1/91 6.6
Worst	2/11/00 –4.9	2/23/01 –4.3	2/9/01 –7.1	2/23/01 –4.4	2/10/84 –4.6
	Best & Worst February Days				
Best	2/24/84 2.7	2/22/99 2.7	2/11/99 4.2	2/22/99 2.6	2/29/00 3.6
Worst	2/18/00 –2.8	2/18/00 –3.0	2/16/01 –5.0	2/18/00 –2.9	2/16/93 –3.3
	First Trading Day of Expiration Week 1990-2005				
Record (#Up - #Down)	12-4	13-3	9-7	13-3	11-5
Current streak	D1	U12	U6	U12	U6
Avg % Change	0.5	0.4	0.2	0.4	0.2
	Options Expiration Day 1990-2005				
Record (#Up - #Down)	7-9	6-10	6-10	6-10	6-10
Current streak	U1	U12	D2	U12	D2
Avg % Change	–0.2	–0.3	–0.6	–0.3	–0.2
	Options Expiration Week 1990-2005				
Record (#Up - #Down)	8-8	6-10	6-10	5-11	8-8
Current streak	D2	D2	D2	D2	D2
Avg % Change	0.2	–0.2	–0.4	–0.2	0.00
	Week After Options Expiration 1990-2005				
Record (#Up - #Down)	6-10	7-9	9-7	7-9	9-7
Current streak	U1	U2	U1	U2	U2
Avg % Change	–0.5	–0.3	–0.3	–0.3	–0.1
	2006 Bullish Days based on data from 1984 to 2004				
	10, 15	3, 10, 15, 28	1, 2, 3, 6, 14	1, 3, 10, 15, 28	1, 2, 3, 6, 7, 8, 10
			15, 28		14, 15, 23, 24, 27, 28
	2006 Bearish Days based on data from 1984 to 2004				
	6, 8, 16, 17	6, 16, 17, 21, 23	16	6, 16, 17, 23	16, 21

Dow & S&P 1950-July 2005, NASDAQ 1971-July 2005, Russell 1K & 2K 1979-July 2005.Options data 1990 through August 2005. Bullish/Bearish days based on index rising or falling 60% of the time on a particular trading day 1984-2004 (see pages 66-73).

Market Negative Before & After Presidents' Day

Presidents' Day is the lone holiday that exhibits weakness the day before and after. Trading has turned more negative over the last sixteen years. The Friday before this mid-winter three-day break is exceptionally bad, whereas the Tuesday after is not as brutal and has shown some improvement recently. The accompanying table illustrates Friday's bearish bent.

MARKET NEGATIVE BEFORE & AFTER PRESIDENTS' DAY

Dow Jones Industrial Average

2 Days Before		Day Before		Day After	
Year	**Close**	**Close**	**% Change**	**Close**	**% Change**
1990	2649.55	2635.59	– 0.5%	2596.85	– 1.5%
1991	2877.23	2934.65	2.0	2932.18	– 0.1
1992	3246.65	3245.97	– 0.02	3224.73	– 0.7
1993	3422.69	3392.43	– 0.9	3309.49	– 2.4
1994	3922.64	3887.46	– 0.9	3911.66	0.6
1995	3987.52	3953.54	– 0.9	3963.97	0.3
1996	5551.37	5503.32	– 0.9	5458.53	– 0.8
1997	7022.44	6988.96	– 0.5	7067.46	1.1
1998	8369.60	8370.10	0.01	8398.50	0.3
1999	9363.46	9274.89	– 0.9	9297.03	0.2
2000	10514.57	10219.52	– 2.8	10304.84	0.8
2001	10891.02	10799.82	– 0.8	10730.88	– 0.6
2002	10001.99	9903.04	– 1.0	9745.14	– 1.6
2003	7749.87	7908.80	2.1	8041.15	1.7
2004	10694.07	10627.85	– 0.6	10714.88	0.8
2005	10754.26	10785.22	0.3	10611.20	– 1.6
		Average Since 1990	**-0.40%**		**-0.21%**
		Up	**4**		**8**
		Down	**12**		**8**
		Average Since 1994	**-0.58%**		**0.10%**
		Up	**3**		**8**
		Down	**9**		**4**

Do note that the two silver-lining years, 1991 and 2003, were both related to military action in the Persian Gulf. In 1991 the month-long punishing air war waged by coalition forces to liberate Kuwait from Saddam's August 1990 invasion began to impact Iraqi forces. On February 15, 1991, the Friday before Presidents' Day, Iraq's offer to pull out of Kuwait for the first time tied to lifting sanctions was rejected by President Bush as "cruel hoax." The following Tuesday after the holiday, General Schwartzkopf said Iraqi forces were "on the verge of collapse." These two clear signs of capitulation were celebrated on Wall Street with buying. In February 2003 the Dow had dropped 13.2% from the previous November high as the anticipation of another fray into Iraq loomed over the world. As the invasion of Iraq became imminent the market rallied the day before and after Presidents' Day before falling to its final 2003 low the week before the March 19 offensive.

MARKET NEGATIVE BEFORE & AFTER PRESIDENTS' DAY

S&P 500

2 Days Before		Day Before		Day After	
Year	**Close**	**Close**	**% Change**	**Close**	**% Change**
1990	334.89	332.72	– 0.6%	327.99	– 1.4%
1991	364.22	369.06	1.3	369.39	0.1
1992	413.69	412.48	– 0.3	407.38	– 1.2
1993	447.66	444.58	– 0.7	433.91	– 2.4
1994	470.34	467.69	– 0.6	471.46	0.8
1995	485.22	481.97	– 0.7	482.74	0.2
1996	651.32	647.98	– 0.5	640.65	– 1.1
1997	811.82	808.48	– 0.4	816.29	1.0
1998	1024.14	1020.09	– 0.4	1022.76	0.3
1999	1254.04	1230.13	– 1.9	1241.87	1.0
2000	1388.26	1346.09	– 3.0	1352.17	0.5
2001	1326.61	1301.53	– 1.9	1278.94	– 1.7
2002	1116.48	1104.18	– 1.1	1083.34	– 1.9
2003	817.37	834.89	2.1	851.17	1.9
2004	1152.11	1145.81	– 0.5	1156.99	1.0
2005	1200.75	1201.59	0.1	1184.16	– 1.5
		Average Since 1990	**-0.57%**		**-0.29%**
		Up	**3**		**9**
		Down	**13**		**7**
		Average Since 1994	**-0.74%**		**0.03%**
		Up	**2**		**8**
		Down	**10**		**4**

NASDAQ Composite

2 Days Before		Day Before		Day After	
Year	**Close**	**Close**	**% Change**	**Close**	**% Change**
1990	429.61	429.01	– 0.1%	423.83	– 1.2%
1991	444.31	448.71	1.0	450.32	0.4
1992	639.10	636.43	– 0.4	626.41	– 1.6
1993	695.88	690.54	– 0.8	665.39	– 3.6
1994	790.24	788.85	– 0.2	791.15	0.3
1995	793.31	786.97	– 0.8	784.62	– 0.3
1996	1090.54	1090.71	0.02	1083.24	– 0.7
1997	1370.81	1367.19	– 0.3	1365.79	– 0.1
1998	1714.34	1710.42	– 0.2	1703.43	– 0.4
1999	2405.55	2321.89	– 3.5	2313.87	– 0.3
2000	4548.92	4411.74	– 3.0	4382.12	– 0.7
2001	2552.91	2425.38	– 5.0	2318.35	– 4.4
2002	1843.37	1805.20	– 2.1	1750.61	– 3.0
2003	1277.44	1310.17	2.6	1346.54	2.8
2004	2073.61	2053.56	– 1.0	2080.35	1.3
2005	2061.34	2058.62	– 0.1	2030.32	– 1.4
		Average Since 1990	**-0.87%**		**-0.81%**
		Up	**3**		**4**
		Down	**13**		**12**
		Average Since 1994	**-1.13%**		**-0.58%**
		Up	**2**		**3**
		Down	**10**		**9**

MARCH INDICATORS AND PATTERNS

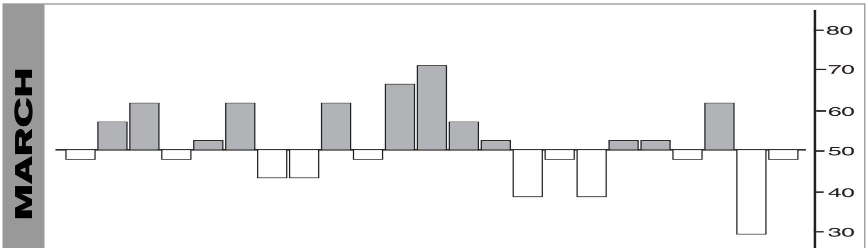
March Almanac

Stormy March markets tend to drive prices up early in the month and batter stocks at month end. Named after Mars, the Roman god of war, the third month of the year often serves as a battleground for bulls and bears. Julius Caesar may not have heeded the famous warning to “beware the Ides of March” but investors would be served well if they did. Stock prices have a propensity to decline, sometimes rather precipitously, around mid-March. Remember, NASDAQ topped out on March 10, 2000 and the S&P peaked March 24, 2000. Most recent March gains have been logged in the beginning and middle of the month. The second half of the month is full of red ink and the last three or four days of the month have posted net declines in eleven of the last fourteen years.

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, down fourteen of the last eighteen years—and frequently down sharply for an average drop of –1.0% on the S&P 500.

The market has been much luckier the day before St. Patrick’s Day (as will be dicussed later). When Good Friday occurs in March there is a bearish bias both the day before and after the Friday holiday. This has occurred ten times since 1950. On days before the S&P 500 are up five and down five, days after are up two and down eight. Both days have accumulated net losses over the period. These two March holiday phenomena are more likely due to Triple-Witching and end-of-first-quarter forces.

Normally a decent performing market month, March is much weaker in post-election years with the Dow Jones Industrials and S&P 500 off fractionally and NASDAQ averaging a –2.0% drop. In midterm years performance is above average moving up better than 60% of the time with greater than 1.0% average gains in the broad indices. Pre-election year Marches rank third or fourth, depending upon the yardstick, and boast 2.0% average gains or better across the board. But in election years March is the worst NASDAQ month, down –2.5% on average.



Market Probability Chart above is a graphic representation of the S&P 500 Recent Market Probability Calendar

Typical March

First days have been weaker for big cap stocks, up about half the time. NASDAQ stocks and small cap Russell 2000 stocks are much stronger in the beginning of March. By the sixth or seventh trading day things cool off until mid-month as the first Triple Witching of the year and 401k cash inflows tend to push stocks higher. After the Ides has past, market gains become scarce until the third to last day of the month. Like the beginning of the month, small stocks and techs perform best the last day with the Russell 2000 up 82% of the time while the Dow Jones Industrials are down much of the time. This is reminiscent of the end of the second quarter when big caps lose ground and small stocks shine.

March Vital Statistics

	DJIA	S&P 500	NASDAQ	Russell 1K	Russell 2K
Rank	6	5	9	8	9
Up	35	36	21	17	18
Down	21	20	14	10	96
Avg % Change	0.9%	1.0%	0.3%	0.7%	0.6%
	4-Year Presidential Election Cycle Performance				
Post-Election Year	–0.4%	–0.2%	–2.0%	–0.8%	–0.3%
Mid-Term Year	1.0	1.1	1.4	1.8	2.2
Pre-Election Year	2.4	2.3	4.2	2.9	3.7
Election Year	0.5	0.8	–2.5	–1.1	–3.0
	Best & Worst March				
	% Change	% Change	% Change	% Change	% Change
Best	2000 7.8	2000 9.7	1999 7.6	2000 8.9	1979 9.7
Worst	1980 –9.0	1980–10.2	1980 –17.1	1980–11.5	1980 –18.5
	Best & Worst March Weeks				
Best	3/21/03 8.4	3/21/03 7.5	3/3/00 7.1	3/21/03 7.4	3/3/00 7.4
Worst	3/16/01 –7.7	3/16/01 –6.7	3/16/01 –7.9	3/16/01 –6.8	3/7/80 –7.6
	Best & Worst March Days				
Best	3/16/00 4.9	3/16/00 4.8	3/13/03 4.8	3/16/00 4.9	3/28/80 4.8
Worst	3/12/01 –4.1	3/12/01 –4.3	3/12/01 –6.3	3/12/01 –4.4	3/27/80 –6.6
	First Trading Day of Expiration Week 1990-2005				
Record (#Up - #Down)	12-4	12-4	8-8	12-4	10-6
Current streak	U1	U1	U1	U1	U1
Avg % Change	0.2	0.1	–0.3	0.1	–0.2
	Options Expiration Day 1990-2005				
Record (#Up - #Down)	9-7	11-5	6-10	9-7	5-11
Current streak	U1	D2	D2	D2	D2
Avg % Change	0.2	0.1	–0.2	0.1	–0.2
	Options Expiration Week 1990-2005				
Record (#Up - #Down)	11-5	11-5	8-8	10-6	7-9
Current streak	D2	D2	D2	D2	D2
Avg % Change	1.0	0.7	–0.6	0.6	–0.4
	Week After Options Expiration 1990-2005				
Record (#Up - #Down)	4-12	3-13	6-10	3-13	7-9
Current streak	D1	D5	D1	D5	D1
Avg % Change	–1.0	–0.7	–0.2	–0.7	–0.3
	2006 Bullish Days based on data from 1984 to 2004				
	2, 3, 16, 20, 29	3, 8, 13, 15, 16	1, 3, 13, 16,20	3, 8, 13, 15, 16	1, 2, 3, 6, 7
		29	31		13, 16, 17, 29, 31
	2006 Bearish Days based on data from 1984 to 2004				
	22, 24, 31	21, 23, 30	21, 22, 27	21, 23, 30	10

Dow & S&P 1950-July 2005, NASDAQ 1971-July 2005, Russell 1K & 2K 1979-July 2005. Options data 1990 through August 2005. Bullish/Bearish days based on index rising or falling 60% of the time on a particular trading day 1984-2004 (see pages 66-73).

Luck of the Irish Hits Wall Street Day Before St. Pat's

Saint Patrick's Day is March's sole recurring cultural event. Sure Good Friday and Easter land in the vernal month from time to time, but only ten times in the last 53 years. Islam's New Year often falls in March as does the Jewish celebration

ST. PATRICK'S DAY TRADING RECORD (DAYS BEFORE AND AFTER)

Year	St. Pat's Day	% Change 2 Days Prior	% Change 1 Day Prior	S&P 500 St. Pat's Day or Next *	% Change St. Pat's Day *	% Change Day After
1953	Tue	0.19%	**0.15%**	26.33	0.42%	– 0.34%
1954	Wed	– 0.45	**– 0.04**	26.62	0.23	0.41
1955	Thu	2.15	**0.76**	36.12	0.39	0.17
1956	Sat	0.97	**0.31**	48.59	0.93	0.58
1957	Sun	0.07	**– 0.05**	43.85	– 0.45	0.43
1958	Mon	0.12	**– 0.31**	42.04	– 0.69	– 0.36
1959	Tue	0.12	**– 1.08**	56.52	0.82	– 0.23
1960	Thu	0.77	**0.55**	54.96	– 0.15	0.09
1961	Fri	0.30	**1.01**	64.60	0.61	0.40
1962	Sat	0.21	**– 0.17**	70.85	– 0.13	– 0.27
1963	Sun	– 0.47	**0.50**	65.61	– 0.49	– 0.21
1964	Tue	0.08	**0.00**	79.32	0.23	0.08
1965	Wed	0.03	**– 0.13**	87.02	– 0.13	– 0.24
1966	Thu	– 0.57	**0.58**	88.17	0.35	0.41
1967	Fri	0.95	**1.01**	90.25	0.18	– 0.06
1968	Sun	– 1.90	**0.88**	89.59	0.55	– 0.67
1969	Mon	– 0.67	**– 0.40**	98.25	0.26	0.24
1970	Tue	– 0.53	**– 1.08**	87.29	0.44	0.29
1971	Wed	1.14	**0.50**	101.12	– 0.09	0.07
1972	Fri	0.13	**– 0.23**	107.92	0.39	– 0.31
1973	Sat	– 0.75	**– 0.51**	112.17	– 1.21	– 0.20
1974	Sun	– 0.09	**– 0.37**	98.05	– 1.24	– 0.84
1975	Mon	0.18	**1.22**	86.01	1.47	– 1.02
1976	Wed	– 1.05	**1.12**	100.86	– 0.06	– 0.41
1977	Thu	0.55	**0.19**	102.08	– 0.09	– 0.22
1978	Fri	– 0.26	**0.44**	90.20	0.77	0.69
1979	Sat	0.15	**0.83**	101.06	0.37	– 0.55
1980	Mon	– 1.17	**– 0.18**	102.26	– 3.01	1.80
1981	Tue	– 0.06	**1.18**	133.92	– 0.56	0.22
1982	Wed	0.77	**– 0.16**	109.08	– 0.18	1.12
1983	Thu	0.35	**– 1.03**	149.59	– 0.14	0.21
1984	Sat	0.41	**1.18**	157.78	– 0.94	0.68
1985	Sun	– 0.20	**– 0.74**	176.88	0.20	1.50
1986	Mon	0.28	**1.44**	234.67	– 0.79	0.47
1987	Tue	– 0.46	**– 0.57**	292.47	1.47	0.11
1988	Thu	– 0.09	**0.95**	271.22	0.96	– 0.04
1989	Fri	0.52	**0.93**	292.69	– 2.25	– 0.95
1990	Sat	0.36	**1.14**	343.53	0.47	– 0.57
1991	Sun	– 0.29	**0.02**	372.11	– 0.40	– 1.48
1992	Tue	0.48	**0.14**	409.58	0.78	– 0.10
1993	Wed	0.36	**– 0.01**	448.31	– 0.68	0.80
1994	Thu	– 0.08	**0.52**	470.90	0.32	0.04
1995	Fri	– 0.20	**0.72**	495.52	0.02	0.13
1996	Sun	0.36	**0.09**	652.65	1.75	– 0.15
1997	Mon	– 1.83	**0.46**	795.71	0.32	– 0.76
1998	Tue	– 0.12	**1.00**	1080.45	0.11	0.47
1999	Wed	0.98	**– 0.07**	1297.82	– 0.66	1.44
2000	Fri	2.43	**4.76**	1464.47	0.41	– 0.54
2001	Sat	0.59	**– 1.96**	1170.81	1.76	– 2.41
2002	Sun	– 0.09	**1.14**	1165.55	– 0.05	0.41
2003	Mon	3.45	**0.16**	862.79	3.54	0.42
2004	Wed	– 1.43	**0.56**	1123.75	1.17	– 0.13
2005	Thu	– 0.75	**– 0.81**	1190.21	0.18	– 0.05
Average		**0.11%**	**0.31%**		**0.14%**	**0.01%**

**When St. Patrick's Day falls on Saturday or Sunday, the following trading day is used. Based on S&P 500.*

of Purim. But Saint Patrick's Day occurs on the same day every year in March. There is no official stock market closing or bank holiday but the festivities do hit close to Wall Street. Parades are held worldwide but the largest runs right up the center of Manhattan.

Gains the day before Saint Patrick's Day have proved to be to be greater than the day itself and the day after. Perhaps it's the anticipation of the patron saint's holiday that boosts the market and the distraction from the parade down Fifth Avenue may cause equity markets to languish. Or is it the absent, and then hungover, traders that hold the market back? Or maybe it's the fact that Saint Pat's usually falls in Triple-Witching Week.

Whatever the case, since 1953, the S&P 500 posts a wee gain of 0.14% on Saint Patrick's Day, an almost nonexistent gain of 0.01% the day after, but the day before averages a cheerful 0.31% advance.

APRIL INDICATORS AND PATTERNS

April Almanac

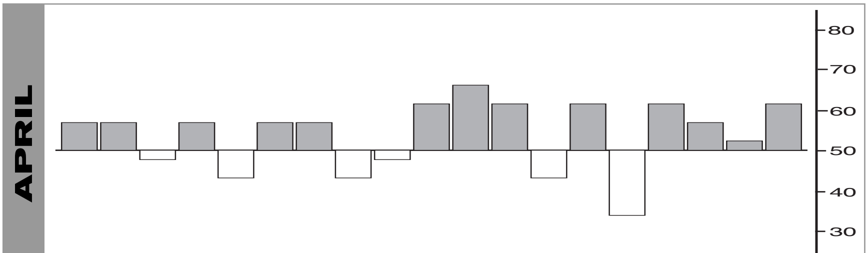
April is the first and only month so far to gain 1000 points on the Dow Jones Industrials. That was 1999. But since those heady days, "Income Tax" month has been hit hard in four of the last six years. The other two years were up dramatically but nevertheless, April has been knocked down a notch, relinquishing its number-one Dow ranking since 1950 on an average monthly change basis to December. April has also showered the rest of the market with gains over the years. Most damage in April has occurred during bear markets, most recently in 2000 and 2002. The bulk of first-half declines in 2004 and 2005 also came in April. This dynamic history for the first month of the second quarter illustrates April's propensity for huge market swings in either direction.

April marks the end of our "Best Six Months" for the Dow Jones Industrials and the S&P 500. It also maintains a firm position in all of our broad index "Seasonal-Switching Strategies." When April comes around, especially if the market has recently rallied substantially, we began to look for our MACD (Moving Average Convergence Divergence) indicator seasonal sell signal for the Dow Jones Industrials and S&P 500.

The first half of April used to outperform the second half but since 1994 that has no longer been the case. The effect of April 15 Tax Deadline appears to be diminished. The market is clearly focused on first quarter earnings during April. Exceptional Q1 earnings and positive surprises tend to be anticipated with stocks and the market moving up in advance of the announcements.

In post-election years April averages respectable gains with big moves up and down. Midterm Aprils are also peppered with wild swings but with a downside bias. Pre-election Aprils are strongest for large cap stocks with the S&P 500 down only once since 1950. Election year Aprils are mediocre generating net losses on NASDAQ and the Russell 2000 and fractional gains for larger capitalization stocks.

Options expiration week likely impacts the market positively in April and Dow Jones Industrial stocks the most. The first trading day of expiration week is better than expiration day and the week as a whole generally is marked by sizeable gains. The week after however, is ruled by sellers.



Market Probability Chart above is a graphic representation of the S&P 500 Recent Market Probability Calendar

Typical April

Over the past 23 years, since the big market-turnaround year of 1982, April has experienced a fair share of volatility throughout the month. Sizeable one-day gains and losses have been quite commonplace. April's first several days are strongest for the Dow Jones Industrials and mid-month strength exists for stocks of all varieties. After the mid-month Tax Deadline the market has been prone to weakness, but the last several days of the month exhibit more NADSAQ and Russell 2000 strength.

April Vital Statistics

	DJIA	S&P 500	NASDAQ	Russell 1K	Russell 2K
Rank	2	4	6	5	6
Up	34	37	22	16	17
Down	22	19	13	11	10
Avg % Change	1.8%	1.3%	1.1%	1.2%	1.3%
	4-Year Presidential Election Cycle Performance				
Post-Election Year	1.6%	1.0%	1.3%	1.6%	0.7%
Mid-Term Year	0.6	–0.01	–0.2	–0.7	0.8
Pre-Election Year	4.2	3.6	3.7	2.9	3.8
Election Year	0.8	0.5	–0.7	0.6	–0.3
	Best & Worst April				
	% Change	% Change	% Change	% Change	% Change
Best	1978 10.6	1978 8.5	2001 15	2001 8	2003 9.4
Worst	1970 –6.3	1970 –9.0	2000 –15.6	2002 –5.8	2000 –6.1
	Best & Worst April Weeks				
Best	4/11/75 5.7	4/20/00 5.8	4/12/01 14	4/20/00 5.9	4/20/00 6.2
Worst	4/14/00 –7.3	4/14/00 –10.5	4/14/00 –25.3	4/14/00 –11.2	4/14/00 –16.4
	Best & Worst April Days				
Best	4/5/01 4.2	4/5/01 4.4	4/5/01 8.9	4/5/01 4.6	4/18/00 5.8
Worst	4/14/00 –5.7	4/14/00 –5.8	4/14/00 –9.7	4/14/00 –6.0	4/14/00 –7.3
	First Trading Day of Expiration Week 1990-2005				
Record (#Up - #Down)	12-4	11-5	10-6	10-6	6-10
Current streak	D1	U3	D1	D1	D1
Avg % Change	0.6	0.5	0.5	0.5	0.2
	Options Expiration Day 1990-2005				
Record (#Up - #Down)	10-6	9-7	6-10	9-7	8-8
Current streak	D1	D1	D2	D1	D1
Avg % Change	0.2	0.03	–0.4	0.00	–0.1
	Options Expiration Week 1990-2005				
Record (#Up - #Down)	13-3	11-5	9-7	11-5	11-5
Current streak	D1	D2	D2	D2	D2
Avg % Change	1.6	1.2	1.3	1.1	0.7
	Week After Options Expiration 1990-2005				
Record (#Up - #Down)	8-8	9-7	9-7	9-7	9-7
Current streak	U2	U3	U3	U3	U3
Avg % Change	–0.3	–0.2	0.2	–0.2	0.6
	2006 Bullish Days based on data from 1984 to 2004				
	3, 6, 11,17, 18, 25	17, 18, 19, 21	5, 10, 11, 17, 19	10, 17, 18, 26	11, 18, 25, 26
		25, 28	26, 27, 28		27, 28
	2006 Bearish Days based on data from 1984 to 2004				
	7, 20, 24	24	7	24	3, 7

Dow & S&P 1950-July 2005, NASDAQ 1971-July 2005, Russell 1K & 2K 1979-July 2005. Options data 1990 through August 2005. Bullish/Bearish days based on index rising or falling 60% of the time on a particular trading day 1984-2004 (see pages 66-73).

Good Friday Better in April

When Good Friday falls in April the Thursday before is more positive than when it lands in March. The S&P 500 is up eight of the last ten times. Monday after Easter is still negative though less so than in March. Tuesday is even stronger with a 0.6% average gain.

Indicators and Patterns

Down January + Down April = Bad Sign

Earlier, in the section on January, we discussed a host of indicators that give their readings in January and later we'll touch on the "December Low Indicator." The absence of Santa Claus Rally, a down First Five Days, a down January Barometer or if the Dow Jones Industrials closes below its December closing low suggests bearish implications for the stock market. The more that occur in the same year the more likely the market is ripe for a further decline. We know that January and April are generally strong months. When January is down it is often a negative indication and April has been known to get hammered in bear markets.

The following table shows all years (since 1950 for Dow and S&P, 1971 for NASDAQ) when both January and April were down. You can see that not only were the full years hit hard, all down or flat, but from the end of April to the end of the year was also treacherous. Most of the damage was wrapped up by September with the last three months of these years performing best. June, July, and August of these years have also delivered a smattering of strong gains.

DOWN JANUARYS + DOWN APRILS = TROUBLE

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year's % Change	April-Dec % Change
Dow Jones Industrials Monthly % Change														
1953	−0.7	−1.9	−1.5	−1.8	−0.9	−1.5	2.7	−5.1	1.1	4.5	2.0	−0.2	−3.8	2.2
1960	−8.4	1.2	−2.1	−2.4	4.0	2.4	−3.7	1.5	−7.3	0.04	2.9	3.1	−9.3	2.4
1962	−4.3	1.1	−0.2	−5.9	−7.8	−8.5	6.5	1.9	−5.0	1.9	10.1	0.4	−10.8	−2.0
1970	−7.0	4.5	1.0	−6.3	−4.8	−2.4	7.4	4.1	−0.5	−0.7	5.1	5.6	4.8	14.0
1973	−2.1	−4.4	−0.4	−3.1	−2.2	−1.1	3.9	−4.2	6.7	1.0	−14.0	3.5	−16.6	−7.7
1981	−1.7	2.9	3.0	−0.6	−0.6	−1.5	−2.5	−7.4	−3.6	0.3	4.3	−1.6	−9.2	−12.3
1990	−5.9	1.4	3.0	−1.9	8.3	0.1	0.9	−10.0	−6.2	−0.4	4.8	2.9	−4.3	−0.9
2000	−4.8	−7.4	7.8	−1.7	−2.0	−0.7	0.7	6.6	−5.0	3.0	−5.1	3.6	−6.2	0.5
2002	−1.0	1.9	2.9	−4.4	−0.2	−6.9	−5.5	−0.8	−12.4	10.6	5.9	−6.2	−16.8	−16.1
2005	−2.7	2.6	−2.4	−3.0										
Average	**−4.0**			**−3.1**	**−0.7**	**−2.2**	**1.2**	**−1.5**	**−3.6**	**2.2**	**1.8**	**1.2**	**−8.0**	**−2.2**
S&P 500 Monthly % Change														
1953	−0.7	−1.8	−2.4	−2.6	−0.3	−1.6	2.5	−5.8	0.1	5.1	0.9	0.2	−6.6	0.8
1956	−3.6	3.5	6.9	−0.2	−6.6	3.9	5.2	−3.8	−4.5	0.5	−1.1	3.5	2.6	−3.5
1960	−7.1	0.9	−1.4	−1.8	2.7	2.0	−2.5	2.6	−6.0	−0.2	4.0	4.6	−3.0	6.9
1962	−3.8	1.6	−0.6	−6.2	−8.6	−8.2	6.4	1.5	−4.8	0.4	10.2	1.3	−11.8	−3.3
1970	−7.6	5.3	0.1	−9.0	−6.1	−5.0	7.3	4.4	3.3	−1.1	4.7	5.7	0.1	13.0
1973	−1.7	−3.7	−0.1	−4.1	−1.9	−0.7	3.8	−3.7	4.0	−0.1	−11.4	1.7	−17.4	−8.8
1974	−1.0	−0.4	−2.3	−3.9	−3.4	−1.5	−7.8	−9.0	−11.9	16.3	−5.3	−2.0	−29.7	−24.1
1981	−4.6	1.3	3.6	−2.3	−0.2	−1.0	−0.2	−6.2	−5.4	4.9	3.7	−3.0	−9.7	−7.7
1990	−6.9	0.9	2.4	−2.7	9.2	−0.9	−0.5	−9.4	−5.1	−0.7	6.0	2.5	−6.6	−0.2
2000	−5.1	−2.0	9.7	−3.1	−2.2	2.4	−1.6	6.1	−5.3	−0.5	−8.0	0.4	−10.1	−9.1
2002	−1.6	−2.1	3.7	−6.1	−0.9	−7.2	−7.9	0.5	−11.0	8.6	5.7	−6.0	−23.4	−18.3
2005	−2.5	1.9	−1.9	−2.0										
Average	**−4.0**			**−3.8**	**−1.7**	**−1.6**	**−0.4**	**−2.1**	**−4.2**	**3.0**	**0.9**	**0.8**	**−10.5**	**−4.9**
NASDAQ Composite Monthly % Change														
1973	−4.0	−6.2	−2.4	−8.2	−4.8	−1.6	7.6	−3.5	6.0	−0.9	−15.1	−1.4	−17.4	−14.5
1984	−3.7	−5.9	−0.7	−1.3	−5.9	2.9	−4.2	10.9	−1.8	−1.2	−1.8	2.0	1.4	−0.04
1990	−8.6	2.4	2.3	−3.6	9.3	0.7	−5.2	−13.0	−9.6	−4.3	8.9	4.1	−6.6	−11.0
2000	−3.2	19.2	−2.6	−15.6	−11.9	16.6	−5.0	11.7	−12.7	−8.3	−22.9	−4.9	−10.1	−36.0
2002	−0.8	−10.5	6.6	−8.5	−4.3	−9.4	−9.2	−1.0	−10.9	13.5	11.2	−9.7	−23.4	−20.9
2005	−5.2	−0.5	−2.6	−3.9										
Average	**−4.1**			**−7.4**	**−3.5**	**1.8**	**−3.2**	**1.0**	**−5.8**	**−0.2**	**−3.9**	**−2.1**	**−26.2**	**−16.5**

MAY INDICATORS AND PATTERNS

May Almanac

May has been a tricky month over the years. It used to be part of what we 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 Dow Jones Industrials falling once and two NASDAQ losses. In the eight years since 1997, May's performance has been erratic, up only about half the time with marginal advances. NASDAQ has suffered five May losses in a row from 1998 to 2001, down –11.9% in 2000, followed by three straight large gains.

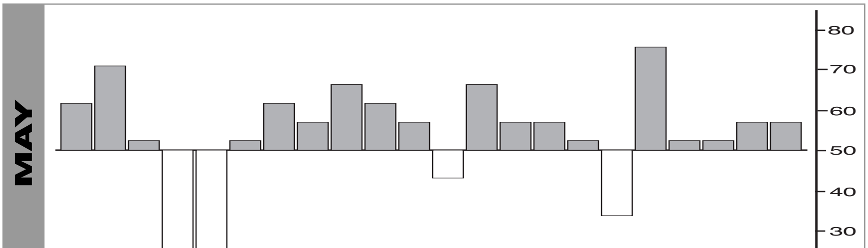
May begins the "Worst Six Months" for the Dow and S&P. Everyone has heard the Wall Street adage, "sell in May and go away." Our "Best Six Months Switching Strategy," that we created in 1986, proves that there is merit to this old trader's tale. A hypothetical $10,000 investment in the Dow Jones Industrials compounded to $499,933 for November-April in 55 years compared to $502 loss for May-October.

Post-Election Years, notoriously the worst year of the four-year election cycle, are May's best performing year. In these years May ranks number one on NASDAQ (average gain, 3.4%) and the Russell 2000 (average gain, 4.9%), second on the S&P 500 (average gain, 1.5%) and the Russell 1000 (average gain, 3.1%) and third on the Dow Jones Industrials (average gain, 1.1%).

Midterm election year Mays lose ground about half the time averaging losses except for the Russell 1000 which manages an average 1.3% gain. Pre-election year Mays are especially bullish for small stocks. The Russell 2000 averages a 3.2% advance in these rather bullish years.

Election Year Mays rank at or near the bottom registering net losses on the Dow Jones Industrials and NASDAQ, and fractional gains on and S&P 500, Russell 1000, and Russell 2000.

Monday before May option expiration is much stronger than expiration day itself albeit weaker for small caps. Big caps have only registered two losses in the last fifteen years. Expiration day is a loser across the board. The full week and week after have a bullish bias.



Market Probability Chart above is a graphic representation of the S&P 500 Recent Market Probability Calendar

Typical May

The first two days of May trade higher frequently and the Dow Jones Industrials have been up six of the last seven first trading days. NASDAQ and the Russell 2000 continue to be strong into day three and throughout the month. A bout of weakness often appears the fourth, fifth, and seventeenth trading days for large cap stocks but the middle of the month tends to be rather strong. NASDAQ and the Russell 2000 take the lead again the last three days of May.

May Vital Statistics

	DJIA		S&P 500		NASDAQ		Russell 1K		Russell 2K	
Rank		9		8		5		4		4
Up		29		32		21		19		18
Down		27		24		14		8		9
Avg % Change		0.1%		0.3%		1.2%		1.4%		2.0%
	4-Year Presidential Election Cycle Performance									
Post-Election Year		1.1%		1.5%		3.4%		3.1%		4.9%
Mid-Term Year		–0.2		–0.4		–0.2		1.3		–0.7
Pre-Election Year		–0.1		0.1		2.0		1.2		3.2
Election Year		–0.3		0.1		–0.6		0.1		0.1
	Best & Worst May									
		% Change		% Change		% Change		% Change		% Change
Best	1990	8.3	1990	9.2	1997	11.1	1990	8.9	1997	11
Worst	1962	–7.8	1962	–8.6	2000	–11.9	1984	–5.9	2000	–5.9
	Best & Worst May Weeks									
Best	5/29/70	5.8	5/2/97	6.2	5/17/02	8.8	5/2/97	6.4	5/2/97	5.4
Worst	5/25/62	–6.0	5/25/62	–6.8	5/12/00	–7.5	5/2/86	–2.9	5/26/00	–4.7
	Best & Worst May Days									
Best	5/27/70	5.1	5/27/70	5.0	5/30/00	7.9	5/8/02	3.7	5/30/00	4.2
Worst	5/28/62	–5.7	5/28/62	–6.7	5/23/00	–5.9	5/19/03	–2.5	5/10/00	–3.4
	First Trading Day of Expiration Week 1990-2005									
Record (#Up - #Down)		14-2		14-2		12-4		14-2		10-6
Current streak		U1		U1		U1		U1		U1
Avg % Change		0.7		0.7		0.6		0.7		0.3
	Options Expiration Day 1990-2005									
Record (#Up - #Down)		6-10		6-10		7-9		6-10		6-10
Current streak		D1		D1		U2		D1		D1
Avg % Change		–0.3		–0.3		–0.4		–0.3		–0.2
	Options Expiration Week 1990-2005									
Record (#Up - #Down)		11-5		10-6		11-5		9-7		12-4
Current streak		U1		U1		U5		U1		U5
Avg % Change		1.1		1.0		1.2		1.0		0.9
	Week After Options Expiration 1990-2005									
Record (#Up - #Down)		10-6		10-6		11-5		10-6		12-4
Current streak		U2		U2		U2		U2		U3
Avg % Change		–0.1		0.2		0.2		0.2		0.2
	2006 Bullish Days based on data from 1984 to 2004									
		1, 2, 9 ,10, 11		1, 2, 9, 11, 12		1, 2, 3, 8, 11, 15, 17		2, 9, 11, 17		1, 2, 3, 9, 11, 17
		19, 30		17, 24		19, 24, 26, 30, 31		24, 31		24, 26, 30, 31
	2006 Bearish Days based on data from 1984 to 2004									
		4, 5, 23		4, 5, 23		None		4, 5, 23		None

Dow & S&P 1950-July 2005, NASDAQ 1971-July 2005, Russell 1K & 2K 1979-July 2005. Options data 1990 through August 2005. Bullish/Bearish days based on index rising or falling 60% of the time on a particular trading day 1984-2004 (see pages 66-73).

Wall Street Rallies for Moms

On Friday before Mother's Day the Dow Jones Industrials have gained ground nine of the last fifteen years but on the Monday after, the blue-chip average has risen in twelve of those years.

Indicators and Patterns

Memorial Day and the Stock Market

Congress turned Memorial Day into a three-day weekend at the end of May with the National Holiday Act of 1971. It is traditionally the 30th of May but since 1971 has been observed on the last Monday in May.

We have kept track of market action around major holidays since the first edition of the Stock Trader's Almanac in 1968. Memorial Day has had a weak bias ahead of the long weekend and strength after the holiday. Early departures for the first long "summer" weekend have driven the Dow down six of the last twelve years.

The week after Memorial Day has been sporadic, following the short-term trend of the market. The Dow Jones Industrials was up twelve years in a row from 1984 to 1995. The last ten years it has been up six times with some substantial gains: 240.10 Dow points in 1999, 495.52 Dow points in 2000, and 248.88 Dow points in 2003.

Memorial Day Market
Dow Jones Industrial Average
Point Changes

Year	Day Before	Day After	Week After
1971	2.03	5.84	14.34
1972	2.18	– 0.07	– 9.86
1973	6.40	– 5.27	– 36.88
1974	11.42	– 2.35	– 14.48
1975	12.99	– 5.79	0.39
1976	9.66	– 2.10	– 11.33
1977	– 9.24	– 0.17	13.40
1978	– 3.72	2.51	15.85
1979	– 1.38	– 3.73	– 15.07
1980	11.18	3.66	– 3.25
1981	– 4.87	12.24	20.03
1982	– 5.42	– 4.57	– 14.56
1983	– 7.35	– 16.16	– 3.10
1984	3.67	– 5.86	17.25
1985	5.26	– 0.45	13.44
1986	16.99	29.74	53.42
1987	17.43	54.74	48.37
1988	– 10.31	74.68	114.86
1989	11.18	– 18.22	24.06
1990	– 34.63	49.57	80.05
1991	13.87	44.95	113.59
1992	8.06	– 22.56	10.11
1993	– 27.40	24.91	17.71
1994	3.68	1.23	15.08
1995	– 43.23	9.68	75.39
1996	0.74	– 53.19	– 119.68
1997	87.78	37.50	– 14.87
1998	– 17.93	– 150.71	– 214.49
1999	92.81	36.52	240.10
2000	– 24.68	227.89	495.52
2001	– 117.05	33.77	– 14.96
2002	– 111.82	– 122.68	– 179.01
2003	7.36	179.97	248.88
2004	– 16.75	14.20	54.37
2005	4.95	– 75.07	– 81.58
Average	**– 3.03**	**10.13**	**27.23**
Up	**20**	**18**	**21**
Down	**15**	**17**	**14**

JUNE INDICATORS AND PATTERNS

June Almanac

The first month of summer has shone brighter on NASDAQ stocks over the last 35 years as a rule ranking fourth with a 1.2% average gain, up 22 of 35 years. This contributes to NASDAQ's Best Eight Months which ends in June. June ranks near the bottom on the Dow Jones Industrials along with August and September since 1950.

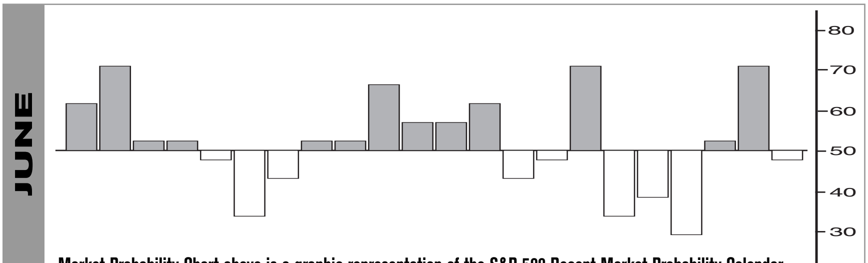
NASDAQ Best Eight Months MACD buy and sell signals have produced excellent long-term results. $10,000 invested in the NASDAQ composite only during the Best Eight Months implementing MACD timing since 1971 would have yielded a $672,954 gain versus a $7,243 loss during the Worst Four Months, which are July through October.

Post-election year Junes have been much weaker pushing Dow and S&P average returns into negative territory and NASDAQ's down to 0.4%. Midterm election year Junes are the worst S&P 500 month, down 10 of 14 with an average loss of –2.0% and average losses in the other major indexes. The last nine pre-election year Junes have fared well, except 1971 and 1991 (recessions). Election year Junes have been solid and only weak in 1972 (Watergate) and 1992 (third candidate, Perot).

The second Triple-Witching Week of the year brings on some volatile trading. On Monday of Triple-Witching Week the Dow has been up nine of the last fourteen but, down five of the last nine. Triple-Witching Friday is no better and more prone to sizeable drops than gains. Full-week performance is choppy as well, littered with greater than 1% moves in both directions. Weeks After Triple-Witching Day are quite dangerous. This week has experienced Dow losses in twelve of the last fourteen years.

Typical June

June's first trading day is the Dow's best day of the month, up fifteen of the last twenty-one years. Strength picks up day two for the broader market with NASDAQ leading the charge. Gains are sparse throughout the remainder of the month until the last two days when semi-annual Russell index reshuffling pushes



Market Probability Chart above is a graphic representation of the S&P 500 Recent Market Probability Calendar

NASDAQ and Russell 2000 stocks highest. The last day of the second quarter is a bit of a paradox as "portfolio pumping" has driven the Dow down eleven of the last fifteen while buoying the NASDAQ and Russell 2000 higher twelve of the last fifteen years.

June Vital Statistics

	DJIA	S&P 500	NASDAQ	Russell 1K	Russell 2K
Rank	11	9	4	7	7
Up	28	30	22	17	18
Down	28	26	13	10	9
Avg % Change	–0.1%	0.2%	1.2%	0.8%	1.1%
	4-Year Presidential Election Cycle Performance				
Post-Election Year	–1.3%	–0.7%	0.4%	0.3%	1.1%
Mid-Term Year	–1.9	–2.0	–1.8	–1.5	–2.1
Pre-Election Year	1.3	1.8	3.0	2.4	2.4
Election Year	1.4	1.9	2.9	1.8	2.5
	Best & Worst June				
	% Change	**% Change**	**% Change**	**% Change**	**% Change**
Best	1955 6.2	1955 8.2	2000 16.6	1999 5.1	2000 8.6
Worst	1962 –8.5	1962 –8.2	2002 –9.4	2002 –7.5	1991 –6.0
	Best & Worst June Weeks				
Best	6/7/74 6.4	6/2/00 7.2	6/2/00 19	6/2/00 8	6/2/00 12.2
Worst	6/30/50 –6.8	6/30/50 –7.6	6/15/01 –8.4	6/15/01 –4.2	6/24/94 –4.4
	Best & Worst June Days				
Best	6/28/62 3.8	6/28/62 3.4	6/2/00 6.4	6/17/02 2.8	6/2/00 4.2
Worst	6/26/50 –4.7	6/26/50 –5.4	6/14/01 –3.7	6/3/02 –2.4	6/12/00 –2.8
	First Trading Day of Expiration Week 1990-2005				
Record (#Up - #Down)	10-6	10-6	7-9	9-7	7-9
Current streak	U1	U1	U1	U1	U1
Avg % Change	0.2	0.1	–0.2	0.1	–0.3
	Options Expiration Day 1990-2005				
Record (#Up - #Down)	10-6	10-6	9-7	9-7	9-7
Current streak	U3	U3	U2	U3	U2
Avg % Change	–0.3	–0.1	–0.01	–0.1	–0.01
	Options Expiration Week 1990-2005				
Record (#Up - #Down)	9-7	9-7	7-9	8-8	7-9
Current streak	U3	U1	U1	U1	U2
Avg % Change	–0.04	0.1	–0.5	0.02	–0.3
	Week After Options Expiration 1990-2005				
Record (#Up - #Down)	2-14	6-10	7-9	7-9	6-10
Current streak	D7	D3	D1	D1	D1
Avg % Change	–1.0	–0.6	–0.03	–0.5	–0.5
	2006 Bullish Days based on data from 1984 to 2004				
	1, 6, 14, 22, 29	1,2,14,19,22,29	1, 2, 6, 29, 30	1, 2, 19 22, 29	1, 2, 7, 29, 30
	2006 Bearish Days based on data from 1984 to 2004				
	9, 20	8, 23, 26, 27	27	7,8,9,20,23,26,27	8, 19

Dow & S&P 1950-July 2005, NASDAQ 1971-July 2005, Russell 1K & 2K 1979-July 2005. Options data 1990 through August 2005. Bullish/Bearish days based on index rising or falling 60% of the time on a particular trading day 1984-2004 (see pages 66-73).

NASDAQ's Powerful 12-Day Mid-Year Rally

Every year when the days get long and the temperature rises on Wall Street, we always hear those infamous buzzwords, the "Summer Rally." As volume begins to shrink he hopes for a Summer Rally catch the ear of investors. On page 75 we illustrate that yes, there is a Summer Rally, but there is a rally for all seasons and the one that occurs in summer is weakest. Sure the market has performed well in a few summers but as a rule it does not. Any outsized summer gains have been predominantly due to extenuating circumstances and after a correction.

NASDAQ however, delivers a short, powerful rally that starts at the end of June. The table on the next page shows NASDAQ averaging a 3.2% gain since 1987 during the 12-day period from June's third to last trading day through July's ninth trading day.

NASDAQ COMPOSITE MID-YEAR RALLY

	June Close	4th Last June Trading Day	3rd Last June Trading Day	8th July Trading Day	9th July Trading Day	July Close	% Change 4th to 8th	% Change 4th to 9th	% Change 3rd to 8th	% Change 3rd to 9th	July Change
1985	296.20	292.30	293.40	300.52	302.39	301.29	2.8%	3.5%	2.4%	3.1%	1.7%
1986	405.51	402.22	402.87	391.55	384.80	371.37	– 2.7	– 4.3	– 2.8	– 4.5	– 8.4
1987	424.67	427.20	426.68	426.53	431.14	434.93	– 0.2	0.9	– 0.0	1.0	2.4
1988	394.66	389.00	391.67	393.56	394.67	387.33	1.2	1.5	0.5	0.8	– 1.9
1989	435.29	448.55	444.90	447.89	448.90	453.84	– 0.1	0.1	0.7	0.9	4.3
1990	462.29	455.38	456.89	467.17	468.44	438.24	2.6	2.9	2.2	2.5	– 5.2
1991	475.92	473.30	473.08	488.37	492.71	502.04	3.2	4.1	3.2	4.1	5.5
1992	563.60	548.20	547.84	570.22	575.21	580.83	4.0	4.9	4.1	5.0	3.1
1993	703.95	694.81	702.84	708.47	712.49	704.70	2.0	2.5	0.8	1.4	0.1
1994	705.96	702.68	702.05	719.35	721.56	722.16	2.4	2.7	2.5	2.8	2.3
1995	933.45	919.56	920.52	994.15	999.33	1001.21	8.1	8.7	8.0	8.6	7.3
1996	1185.02	1172.58	1153.29	1106.36	1103.49	1080.59	– 5.6	– 5.9	– 4.1	– 4.3	– 8.8
1997	1442.07	1446.24	1436.38	1502.62	1523.88	1593.81	3.9	5.4	4.6	6.1	10.5
1998	1894.74	1863.25	1869.53	1965.53	1968.41	1872.39	5.5	5.6	5.1	5.3	– 1.2
1999	2686.12	2552.65	2602.44	2778.23	2818.13	2638.49	8.8	10.4	6.8	8.3	– 1.8
2000	3966.11	3858.96	3940.34	4174.86	4246.18	3766.99	8.2	10.0	6.0	7.8	– 5.0
2001	2160.54	2064.62	2074.74	2075.74	2084.79	2027.13	0.5	1.0	0.0	0.5	– 6.2
2002	1463.21	1423.99	1429.33	1374.43	1373.50	1328.26	– 3.5	– 3.5	– 3.8	– 3.9	– 9.2
2003	1622.80	1602.66	1634.01	1733.93	1754.82	1735.02	8.2	9.5	6.1	7.4	6.9
2004	2047.79	2025.47	2019.82	1931.66	1914.88	1887.36	– 4.6	– 5.5	– 4.4	– 5.2	– 7.8
2005	2056.96	2045.20	2069.89	2144.11	2152.82	2184.83	4.8	5.3	3.6	4.0	6.2
						1985 Average	**2.4%**	**2.8%**	**2.0%**	**2.5%**	**– 0.2%**
						1987 Average	**2.6%**	**3.2%**	**2.2%**	**2.8%**	**0.1%**

JULY INDICATORS AND PATTERNS

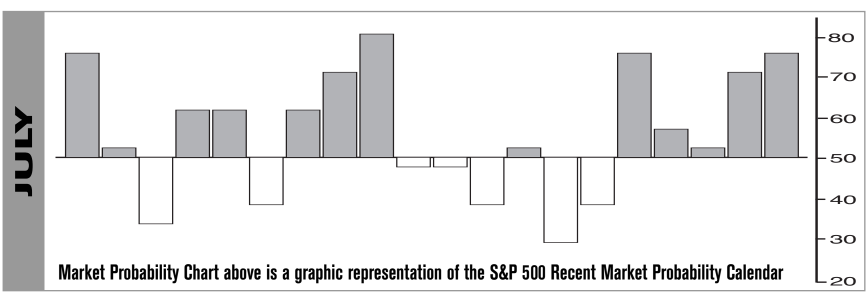
July Almanac

July may be the best month of the third quarter for the Dow and S&P, but that is not saying much. Performance for the other two months, August and September, is negative for the most part. Only the Dow has consistently racked up gains. Since 1950 the Dow has averaged a 1.1% gain while the S&P posts an average gain of 0.9%.

July begins NASDAQ's worst four months and except for a few select years the over-the-counter index has been hit hard in July with an average loss of –0.3% since 1971. Dynamic trading often accompanies the first full month of summer as the beginning of the second half of the year brings an inflow of new funds—likely from retirement accounts. This creates a bullish beginning, a weak middle and strength towards the end (unless a bear market is in progress). Huge gains in July are often followed by sizeable drops and better buying opportunities later in the year (see Hot July Markets, page 35).

Trading around the Independence Day holiday is nothing to get exited about. The day before barely ekes out a gain and the day after is down more than half of the time, averaging minor losses. Wild market gyrations, both up and down, frequently occur for several days after the 4th. It pays to leave a day or two early with the traders and close out any short-term long positions well before the annual festivities begin. As mentioned in the June section and later with all the Seasonal Rallies, most years it does not pay to get sucked into the "Summer Rally" hype. Lock in any short-term gains and be prepared to capitalize on broad market weakness.

Post-election Julys perform quite well, ranking number one on the S&P 500 and the Dow Jones Industrials. Midterm election Julys are worst for NASDAQ and the Russell 2000 ranking dead last on both. NASDAQ averages a loss of –3.4%, up two, down six. The Russell 2000 has been crushed over the years for a –6.2% drubbing and only one gain. Pre-election Julys, swept up by overall bullish forces, achieve modest gains. Julys have suffered from the heat of the campaign trail in election years with large caps posting fractional gains and losses. Election year Julys are second worst on NASDAQ with an average drop of –1.8%, up 3, down 6.



Market Probability Chart above is a graphic representation of the S&P 500 Recent Market Probability Calendar

Option expiration in July is generally characterized by flat trading. Monday before expiration has been mixed the last six years, with the Dow down 3 straight then up the last 3. On expiration Friday however, the Dow has been down 4 of the last 6. The week after expiration is one of the worst of the year.

Typical July

The month opens strong with the Dow Jones Industrials, S&P 500 and Russell 1000 up fourteen of the last seventeen first trading days. Day three is weak fol-

July Vital Statistics

	DJIA	S&P 500	NASDAQ	Russell 1K	Russell 2K
Rank	5	7	11	10	12
Up	34	30	17	11	13
Down	22	26	18	16	14
Avg % Change	1.1%	0.9%	–0.3%	0.3%	–0.8%
4-Year Presidential Election Cycle Performance					
Post-Election Year	1.6%	1.6%	2.6%	2.4%	1.6%
Mid-Term Year	0.9	0.4	–3.4	–2.5	–6.2
Pre-Election Year	1.5	1.3	1.2	1.3	2.1
Election Year	0.3	0.2	–1.8	–0.4	–1.5
Best & Worst July					
	% Change	% Change	% Change	% Change	% Change
Best	1989 9	1989 8.8	1997 10.5	1989 8.2	1980 11
Worst	1969 –6.6	2002 –7.9	2002 –9.2	2002 –7.5	2002 –15.2
Best & Worst July Weeks					
Best	7/2/99 5.6	7/2/99 5.8	7/2/99 7.4	7/2/99 5.7	7/18/80 4.2
Worst	7/19/02 –7.7	7/19/02 –8.0	7/28/00 –10.5	7/19/02 –7.4	7/19/02 –6.6
Best & Worst July Days					
Best	7/24/02 6.4	7/24/02 5.7	7/29/02 5.8	7/24/02 5.6	7/29/02 4.9
Worst	7/19/02 –4.6	7/19/02 –3.8	7/28/00 –4.7	7/19/02 –3.6	7/23/02 –4.1
First Trading Day of Expiration Week 1990-2005					
Record (#Up - #Down)	10-6	11-5	11-5	11-5	10-6
Current streak	U3	U3	U1	U3	U1
Avg % Change	–0.1	–0.1	0.1	–0.1	–0.01
Options Expiration Day 1990-2005					
Record (#Up - #Down)	5-11	6-10	6-10	6-10	4-12
Current streak	U1	U1	U1	U1	U1
Avg % Change	–0.6	–0.5	–0.6	–0.5	–0.6
Options Expiration Week 1990-2005					
Record (#Up - #Down)	9-7	6-10	7-9	6-10	8-8
Current streak	U1	U1	U1	U1	U1
Avg % Change	–0.3	–0.6	–0.5	–0.6	–0.6
Week After Options Expiration 1990-2005					
Record (#Up - #Down)	7-9	6-10	5-11	6-10	4-12
Current streak	U1	U1	U1	U1	U1
Avg % Change	–0.5	–0.8	–1.6	–0.8	–1.3
2006 Bullish Days based on data from 1984 to 2004					
	3, 12, 13, 14, 25 28, 31	3, 7, 10, 12, 13, 14 25, 28, 31	3, 10, 12, 13, 14 25, 26, 31	3, 7, 12, 13, 14, 25 26, 28, 31	10, 13, 14, 25 26, 31
2006 Bearish Days based on data from 1984 to 2004					
	6, 19, 21	6, 11, 19, 21, 24	6, 19, 21, 24	6, 11, 19, 21, 24	6, 19, 21, 24

Dow & S&P 1950-July 2005, NASDAQ 1971-July 2005, Russell 1K & 2K 1979-July 2005. Options data 1990 through August 2005. Bullish/Bearish days based on index rising or falling 60% of the time on a particular trading day 1984-2004 (see pages 66-73).

lowed by strength until options expiration. The third week of July, frequently the week after options expiration, is July's major trouble spot.

Indicators and Patterns

Hot July Markets Often Precede Fourth Quarter Buying Opportunities

One of the many interesting seasonal patterns we have tracked over the years in the *Stock Trader's Almanac* and our newsletters concerns July gains of 3.5% or more on the Dow that occurred since 1950. The accompanying table illustrates that whenever bulls stampeded in July, investors were likely to be given an opportunity to purchase stocks cheaper sometime later in the fall.

Three times subsequent second half lows were reached rather quickly after hot July markets. The August 1954 low followed the bear market of 1953, when the market bottomed in September 1953 and went straight up until April 1956. August 1958's low followed the 1957 bear market, when the new bull market picked up steam in April 1958. A quick low came in August 1970 as the 1969/1970 bear market ended in May 1970.

All other occasions brought better buying opportunities in the ninety days between mid-September and mid-December.

HOT JULY MARKETS & AUTUMN BUYING OPPORTUNITIES

July Gains of 3.5% or More			Subsequent 2nd Half Low		
Year	**Dow**	**% Gain**	**Date**	**Dow**	**% Lower**
1951	257.86	6.3%	Nov 24	255.95	– 0.7%
1954	347.92	4.3	Aug 31	335.80	– 3.5
1956	517.81	5.1	Nov 28	466.10	– 10.0
1958	502.99	5.2	Aug 18	502.67	– 0.1
1959	674.88	4.9	Sep 22	616.45	– 8.7
1962	597.93	6.5	Oct 23	558.06	– 6.7
1967	904.24	5.1	Nov 8	849.57	– 6.0
1970	734.12	7.4	Aug 13	707.35	– 3.6
1973	926.40	3.9	Dec 5	788.31	– 14.9
1978	862.27	5.3	Nov 14	785.26	– 8.9
1980	935.32	7.8	Dec 11	908.45	– 2.9
1987	2572.07	6.3	Oct 19	1738.74	– 32.4
1989	2660.66	9.0	Oct 13	2569.26	– 3.4
1991	3024.82	4.1	Dec 10	2863.82	– 5.3
1994	3764.50	3.8	Nov 23	3674.63	– 2.4
1997	8222.61	7.2	Oct 27	7161.15	– 12.9
2005	10640.91	3.6			
				Total	**– 122.4%**
				Average	**– 7.7%**

AUGUST INDICATORS AND PATTERNS

August Almanac

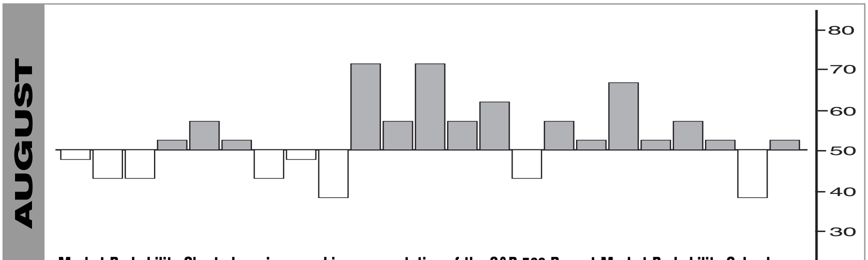
Money flow from harvesting made August a great stock market month in the first half of the twentieth century. It was the best month from 1901 to 1951. In 1900, 37.5% of the population was farming. Now less than 2% farm and August is one of the worst months of the year. August has become the worst S&P 500 month in the past 15 years.

The 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 ended August 31, 1998. The Dow dropped a record 1344.22 points for the month, off 15.1%—which is the second worst monthly percentage Dow loss since 1950. The Dow lost 512.64 points on the last day alone, –6.4%, the worst one-day drop since October 1987. Saddam Hussein triggered a 10.0% slide in August 1990. The best Dow gains occurred in 1982 (11.5%) and 1984 (9.8%) as bear markets ended.

Trading stocks in August has led to frustration with its propensity for nasty sell-offs. August's woes may be perpetuated by the empty trading floors of the "vacation" month.

August is its typical self in post-election years generating losses and ranking last on the Dow Jones Industrials and S&P 500. It is the penultimate Russell 1000 month and third from the bottom on NASDAQ and the Russell 2000. Midterm Augusts behave on par with the months overall performance. Pre-election Augusts produce decent gains and rank a bit higher on the Dow Industrials and S&P 500. Election year Augusts perform better though; ranked number one on both Russell indices with the small cap Russell 2000 averaging a 3.5% gain, up 4, down 3.

On Monday of expiration week the Dow has been up twelve of the last sixteen times with some big winners while on expiration Friday it has dropped in ten of those sixteen years. Expiration week as a whole is up half the time but some of the losses have been steep. The week after is much stronger up five straight from 2000 to 2004.



Market Probability Chart above is a graphic representation of the S&P 500 Recent Market Probability Calendar

Typical August

The first nine trading days of the month have exhibited weakness while mid-month is strongest. The end of August tends to get whacked as traders evacuate Wall Street for the summer finale. The last five days have suffered in six of the last nine years with the Dow up only once the next to last day in ten years. In the last nine years, the last five days of August have averaged losses of: Dow Jones Industrials, –2.9%; S&P 500, –2.7%; and NASDAQ, –2.4%.

August Vital Statistics

	DJIA	S&P 500	NASDAQ	Russell 1K	Russell 2K
Rank	10	10	10	9	8
Up	31	30	18	17	15
Down	24	25	16	9	11
Avg % Change	–0.1%	0.02%	0.2%	0.5%	0.6%
	4-Year Presidential Election Cycle Performance				
Post-Election Year	–2.0%	–1.8%	–1.9%	–2.2%	–0.7%
Mid-Term Year	–0.9	–0.6	–2.8	–0.4	–2.9
Pre-Election Year	1.8	1.4	2.2	1.9	1.8
Election Year	0.8	0.9	2.8	2.3	3.5
	Best & Worst August				
	% Change	**% Change**	**% Change**	**% Change**	**% Change**
Best	1982 11.5	1982 11.6	2000 11.7	1982 11.3	1984 11.5
Worst	1998 –15.1	1998 –14.6	1998 –19.9	1998 –15.1	1998 –19.5
	Best & Worst August Weeks				
Best	8/20/82 10.3	8/20/82 8.8	8/3/84 7.4	8/20/82 8.5	8/3/84 7.0
Worst	8/23/74 –6.1	8/16/74 –6.4	8/28/98 –8.8	8/28/98 –5.4	8/28/98 –9.4
	Best & Worst August Days				
Best	8/17/82 4.9	8/17/82 4.8	8/14/02 5.1	8/17/82 4.4	8/6/02 3.7
Worst	8/31/98 –6.4	8/31/98 –6.8	8/31/98 –8.6	8/31/98 –6.7	8/31/98 –5.7
	First Trading Day of Expiration Week 1990-2005				
Record (#Up - #Down)	12-4	14-2	14-2	14-2	12-4
Current streak	U3	U3	U8	U3	U6
Avg % Change	0.5	0.5	0.6	0.5	0.4
	Options Expiration Day 1990-2005				
Record (#Up - #Down)	6-10	7-9	7-9	7-9	9-7
Current streak	U3	U3	D1	U3	U4
Avg % Change	–0.5	–0.4	–0.4	–0.4	–0.1
	Options Expiration Week 1990-2005				
Record (#Up - #Down)	8-8	10-6	10-6	10-6	11-5
Current streak	D1	D1	D1	D1	D1
Avg % Change	–0.2	0.2	0.6	0.2	0.6
	Week After Options Expiration 1990-2005				
Record (#Up - #Down)	11-5	12-4	11-5	12-4	11-5
Current streak	D1	D1	D1	D1	D1
Avg % Change	0.2	0.2	0.4	0.2	–0.3
	2006 Bullish Days based on data from 1984 to 2004				
	14, 16, 22, 24	14, 16, 18, 24	4, 14, 15, 16, 22	7, 14, 16, 18, 22	9, 14, 15, 16, 22, 24
			23, 29, 31	24	29, 30, 31
	2006 Bearish Days based on data from 1984 to 2004				
	30	11, 30	2	2, 11	11

Dow & S&P 1950-July 2005, NASDAQ 1971-July 2005, Russell 1K & 2K 1979-July 2005. Options data 1990 through August 2005. Bullish/Bearish days based on index rising or falling 60% of the time on a particular trading day 1984-2004 (see pages 66-73).