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OBSERVATIONS ON THE MARKET

By Greg Denewiler, CFA

You are not my guru! The pundits, the intellectuals, the experts, and the media, they all got it wrong. It wasn't just the election, it seemed to be everything leading up to the election. For months, virtually all the fund raising from Wall Street was leaning towards the democrats, and Wall Street is usually considered to be conservative. The polls were virtually all in favor of Clinton through the entire campaign. The stock market would rally when Clinton's lead would grow, and sell off when Trump showed signs of life. The experts almost unanimously predicted a sell off if Trump won, but were a little more divided as to what would happen after that. Even the betting on the election, which is usually pretty accurate in predicting outcomes, was way off. Then, right on cue, the stock market began to sell off as an upset began to look possible Tuesday night. As an upset looked inevitable, the market was down 900 points in after-hours trading, or 5%. The financial markets were behaving exactly as they were supposed to.

One of the best lessons that you can learn as an investor is to know that the markets themselves don't even know what they are going to do next. We all know now that when the sun came up on November 9th, something started to change. By 9:30 am in New York, the stock market opened down for about 10 minutes and then never looked back. You should ask yourself; what changed? Was it as simple as a victory speech that didn't sound like it was coming from a madman? If there is one lesson to be learned from all this, it is not which party is better or which candidate is better, but that the markets are an unpredictable thing. Waiting for clarity can be very expensive and the future is not certain. However, in the world of investing, it doesn't have to be if your time horizon is more than a few weeks. It is very easy to let your emotions control your investing, but if you invest in things that make money no matter who is in the White House, you have less to worry about.

Since investing is all about tomorrow, and prices today are about 5% more expensive than they were just two weeks ago, now what? It appears that the short-term optimism in the market is mostly fueled by the prospects of lower corporate tax rates and the repatriation of foreign cash. Being pro-business is one thing, but being pro-business at the expense of higher debt levels is another. The economy is not going to miraculously improve in the next six months just because a businessman is president. The political system is designed to be very difficult to change direction. The founding fathers were brilliant in this regard. Over the last few decades both parties have been guilty of spending more money without the necessary spending restraints. It is way too early to tell what may be different this time, so getting too excited is probably premature. Once again it is always about paying a reasonable price for long-term profit growth. The market always gives you a chance to buy at reasonable prices if you are patient.

As we move past the election, the gurus will be out in force predicting the latest trends, and always with the greatest of confidence. Politicians come and go, however, the economy has still managed to grow at about 5% per year for the last 100 years. In 2009, how many gurus were predicting Dow 19,000 in seven years? The answer is somewhere close to 0. If we as investors could just commit to our investment philosophy regardless of what is going on around us, we would ultimately be much more successful.