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OBSERVATIONS ON THE MARKET

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Here we sit, just one good day away from DOW 20,000. With all the political uncertainty, it is a little surprising there hasn't been more of a pullback beyond the 1.5% we have seen. After all, markets do hate uncertainty. First off, 20,000 is just a number and by itself means nothing. Earnings appear to be finishing 2016 up about 9%. The S&P 500 finished up 9.5%, funny how that works. That means that the market finished the year at the same valuation as it began. Still not cheap, but it isn't any more expensive than January of 2016. We are now in 2017, what are the expectations for earnings now?

The earnings estimates for the market in 2017 are currently $130. If earnings hit $130, that would represent a 19% increase from where we are now. Before you become too excited, analysts were predicting that companies would earn $125 at the beginning of 2016. They will probably end up at $109 for 2016. What that leaves us with is an opportunity for a big surprise either way. Sometimes analysts underestimate, mostly they overestimate. This year, as we have come to realize, anything is possible. Given that, here are a few quotes to keep all of this in perspective.

First, from Michael Lewis's new book, *The Undoing Project,* which is about two psychologists who started the behavioral investing movement in the 1960's: *People predict by making up stories – People predict very little and explain everything – People live under uncertainty whether they like it or not – People believe they can tell the future if they work hard enough – People accept any explanation as long as it fits the facts – The hand writing was on the wall, it was just the ink that was invisible.*

Next are a few quotes from *Keynes's Way to Wealth*, by John Wasik. Keynes was one of the more influential economists from 1920 to 1940. Some of his economic theories are still followed today. The first: *Over the very long run, it is the economics of investing – enterprise – that has been virtually entirely responsible for the total return on stocks. The evanescent emotions [animal spirits] of investing – speculation – so important over the short run, have ultimately proven to be virtually meaningless.* The second*: There is a danger of expecting the results of the future to be predicted from the past.*

The question that is on everyone's mind is; what is going to happen since we have a political leader that has never been a politician? It is the very definition of uncertainty. It is a true unknowable. Keynes was a great economist, but was also a great investor. He was responsible for creating one of the larger endowments for Kings College, a part of Cambridge University. He created a fortune during the great depression and leading up to WW2 and Nazism. His basic view was that enterprise always wins out. Earnings and dividends are color blind, sexually neutral, and politically void. He had to convince the board of Kings College to ride out the 1932 market decline, which erased over half the portfolio's value. His main argument was that a recovery would eventually come, and you don't want to miss that. Keynes started as a trader, expecting to take advantage of his 'inside' knowledge since he helped manage the UK economy in the 1920's. After several large losses, he decided that predicting the future was impossible, but still believed that equity was the way to create wealth. He then became one of the original buy and hold investors. When he died in 1946, his portfolio was worth about $22 million in 2013 dollars. From 1942 – 1946, "the Germans were bombing the heck out of London, British ships were being sunk by the hundreds, and things looked pretty grim for Europe until D-Day in 1944. Keynes, however, managed to hold on to his portfolio. U.S. stocks rose 122 percent during that time" (*Keynes's Way to Wealth*).