November 11, 2016

8:52 AM EST

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Election Model Right... AGAIN

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I certainly did not intend for this to be a full blown Street$marts written from my hotel room in Florida. However, events over the last few days definitely changed that. It may be on the long side, but don't forget to read the last two articles.

Thanks to FOX in CT for having me on the day before and the day after Election Day. Below are the two links to the segments.

https://www.youtube.com/watch?v=cbfaTfILVDs&feature=youtu.be

https://www.youtube.com/watch?v=mCI4ZmVWgec&feature=youtu.be

The longest election build up in our history is finally over and the outcome was certainly not what the mainstream media and pollsters expected. Throughout October and early November, it was widely expected by ABC, CBS, NBC, MSNBC and CNN that Hillary Clinton would become our 45th president.

The major polls offered the same conclusion. However, there were three polls which favored Trump
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most of the fall. LA Times/USC, Rasmussen and IBD. Pundits dismissed those polls as outliers and not statistically relevant, but in the end, their methodologies embarrassed their mainstream competition.

Another correct prediction came from the stock market and our own market model. On November 4, you received an email with this content. http://investfortomorrowblog.com/archives/2473. Given the stock market's behavior in the days, weeks and months leading up to last Friday, the model said Donald Trump would win the election.

The model had called the last five (now six) elections correctly. In similar elections where the sitting president could no longer run, I reported that a 3-1 record with 1956 being wrong. After reviewing my work, 1956 was a year where incumbent Ike ran for reelection. I should have reported 1960 where the model was again correct.

As I mention from time to time, in between Street$marts issues I am often very active on **www.Investfortomorrowblog.com**, especially when market are volatile like now. If you would like to be notified when a new posting has been made, please see this link. **http://www.investfortomorrow.com/BlogAlerts.asp**

Another Wrong for Me

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Besides misreading the research, my personal electoral opinion was wrong which was not based on research and cold, hard facts.In that email as well as in a subsequent article it just didn't seem plausible for Trump to win the necessary 270 electoral votes. I said he absolutely needed Florida, North Carolina, Arizona and Ohio which had correctly predicted the last 13 presidential contests. Sweeping those four had a 6% chance of occurring. And even then, he would need to turn one blue state red. None of those blue states appeared that close coming into Election Day.

There is a reason we manage portfolios based on non-emotional, time and battle-tested quantitative models. It's not because they are infallible; they certainly have their weak moments. It's because opinions can ebb and flow based on the landscape. Emotional investing tends to buy near peaks and sell near lows. Markets don't care about my opinions nor editorials. There is no foundational way to assess risk based what I think should happen. And that's why my opinion on Trump's path to 270 was wrong along with that of so many others.

Getting back to the election, if you followed me on Twitter during election night, it was fascinating to watch the overnight trading session reach historic levels of volatility. When early Florida returns came in, the S&P 500 quickly jumped almost 1% by 8 pm. Shortly thereafter, the results began to turn to Trump in traditionally blue counties.

Then, we saw a mini-crash or flash crash or free fall as the Dow was down 800 points and circuit breakers kicked in to prevent any further decline. It was ugly, but I wondered at the time if we were just seeing computers trade with computers.

And just as it looked like everything would become unglued when stocks opened on the 9th, bargain hunters stepped up and surely and steadily pushed stocks back up right to the NYSE opening. From there, the bulls overwhelmed the bears in a very volatile session.
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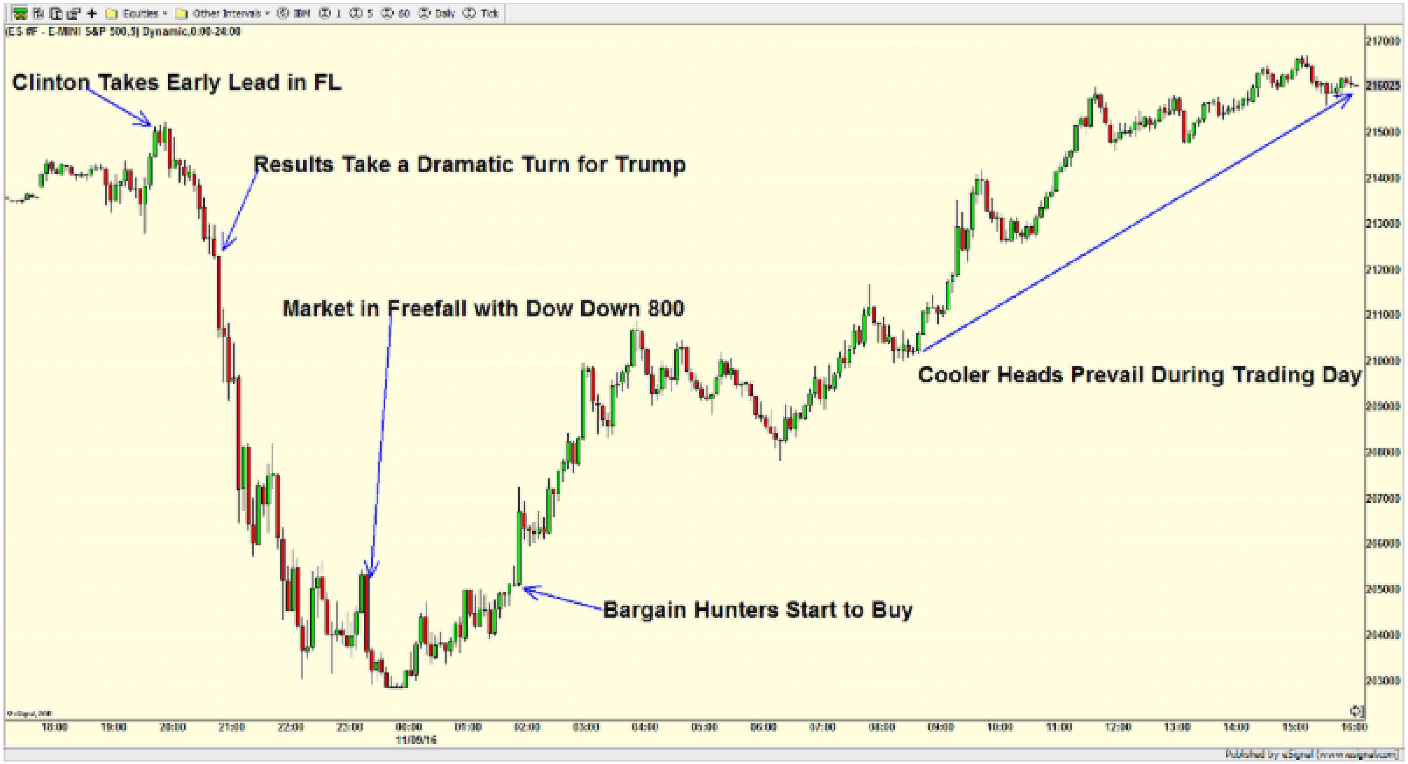

Clinton Scenario But Trump Portfolio

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In several interviews, I offered that stocks would decline 3-6% on a Trump victory and a better buying opportunity would come towards Thanksgiving. At the overnight lows as election results were being reported, stocks were 5%. That's not how I envisioned the pullback occurring, but it did. I certainly did not see the market forming a low overnight and then rallying 8% like a rocket taking off.

Overall market directional behavior this week is conforming to my Clinton victory scenario more so than my Trump one with stocks continuing to advance for a day or two before the rally peters out.

If you watch the stock market on a regular basis, you probably noticed some of the most vicious sector rotation during a rally of all-time. Investors clearly had their Clinton portfolios invested before Election Day. The past two days have seen banks, healthcare, biotech, homebuilders, industrials, materials and transports soar while semis, software, telecom, REITs, staples and utilities have either closed down a little or outright collapsed.

My interpretation is that investors viewed a Clinton victory as a continuation of Obama's economy, only slightly slower. They are viewing a Trump victory and agenda as very pro-growth with individual and corporate tax cuts, repatriation of corporate cash overseas, infrastructure and defense spending along with the potential for higher budget deficits all leading to strong GDP growth for the economy.
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Rally Ending - Time to Play Defense

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On the surface, you would think that the past two days were two easy days for the bulls. After all, the Dow was up 5%. What could be bad? Beneath the surface, there was much wrong with the post-election rally. To begin with, the Dow was strongest index, by far, followed by the Russell 2000. The S&P 500 and S&P 400 were up less than 0.50% yesterday. The NASDAQ 100 was actually down over the past two days. Reread that last sentence. With the Dow up 5% over two days, the usually leading NASDAQ 100 lost ground over the past two days. This is not a healthy market.

Internally, it looks even shakier with the average stock on the New York Stock Exchange closing lower from two days ago. High yield bonds, perhaps my favorite canary in the coal mine continue to be hit hard as the Dow rallied.

On the leadership front, while the banks and transports have celebrated Trump's victory in an enormous way, consumer discretionary is lagging and semis were down since Trump won. At the same time, interest rates have shot up significantly, both short-term and long-term. In fact, although the numbers remain small, the 90 day treasury bill is not at its highest level since 2008. This is an important change.

The window of opportunity for a stock market decline has opened and it's time to play defense. We will see what shakes out. This is not the time to be complacent.

If you have any questions about your own portfolio or situation, please reply to this email or call the office directly at 203.389.3553.

Investment Quotes/Adages To Live By

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"In God we trust, all others bring data."
- The Elements of Statistical Learning

"The only easy day was yesterday."

- The U.S. Marines

"When in doubt, get out!"

"If it's obvious, it's obviously wrong."
-Joe Granville

"It's ok to be wrong, but it's not ok to stay wrong."

"This time is different."

"The markets require the patience of a dozen men."
-Robert Rhea

"Luck is the residue of effort."

"The most bullish thing a market can do is go up in the face of bad news."

"The most bearish thing a market can do is go down in the face of good news."

"The market can stay irrational longer than you can stay solvent."
-John Maynard Keynes

"Government is best which governs least" - Thomas Jefferson

Inflation is the one form of taxation that can be imposed without legislation.
-Milton Friedman

"You cannot legislate the poor into freedom by legislating the wealthy out of freedom. What one person receives without working for, another person must work for without receiving. The government cannot give to anybody anything that the government does not first take from somebody else. When half of the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for,that my dear friend, is about the end of any nation. You cannot multiply wealth by dividing it." - Dr. Adrian Rogers, 1984

"Bear markets seem to be divided into three phases: the first being the abandonment of hopes upon which the final uprush of the preceding bull market was predicted; the second, the reflection of decreased earnings power and reduction of dividends, and the third representing distressed liquidation of securities which must be sold to meet living expenses. Each of these phases seems to be divided by a secondary reaction which is often erroneously assumed to be the beginning of a bull market."
- Robert Rhea

"Free enterprise is a rough and competitive game. Nobody too big to fail. Nobody too small to succeed. It is a hell of a lot better than government control." - Ronald Reagan via Dan Kennedy

"A government big enough to give you everything you want is big enough to take everything you have." - Gerald Ford via Dan Kennedy

"The problem with socialism is that, sooner or later, you run out of other people's money." - Margaret Thatcher

"Diversification alone is no longer sufficient to temper risk... You need something more to manage risk well."
- Mohamed El-Erian

"A little bit at a time adds up to a lot in no time"

To Your Financial Success,

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