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Greetings from 34,000 feet as I head to Chicago for a quick two day trip to attend the National Association of Active Investment Managers' conference where I will be speaking about my preliminary forecast for 2019 as well as rubbing elbows with some of the industry's brightest and most forward thinking minds. It's an association I have been involved with since 1990 and their two conferences are always a highlight of my year.

Election Day is here again. Boy, was that a fast two years. My grandmother was right again. The older you get, the quicker time flies. She was rarely wrong and one of the smartest people I have ever known, especially when it concerned common sense things. After my grandfather died in 1999, my grandmother and I spoke on the phone almost every single night until she passed in December 2015. Some nights we would watch the news together or one of our favorite shows, like The West Wing. And then the political discussions would fly.

Anyway, one of her strongest pieces of advice to me over the years was not to get too emotional over things I have zero control over, like elections. Growing up during The Great Depression, she had a unique view of life and politics. What I always loved about her was that she was never a straight line party voter. Sometimes, she voted Republican while other times it was for Democrats. She voted for people she thought would be best for their constituency, even to her own detriment when it meant higher taxes although my grandfather was a very shrewd investor, looking for green shoots from a scorched earth in the bond market.

I remember holiday dinner conversation in the 1970s when New York City was on the verge of bankruptcy. My grandfather had just put an enormous amount of their savings into triple tax free municipal bonds which were being priced for Armageddon. I want to remember that yields were 20%+, maybe even higher. Everyone thought he was crazy. I remember him saying that the politicians would never, ever let the biggest and greatest city in the world go broke. And sure enough, at the 11th hour, the lenders blinked. For years and years, my grandparents enjoyed returns above 20% and paid zero taxes until the bonds began to be called away in the 1980s and 90s.

Back to the topic at hand after one of my usual digressions. Two years ago, I made a very bold and brash prediction that Donald Trump was going to beat Hillary Clinton and become the 45th President of the United States. This wasn't my opinion as I could not see his path to victory on the electoral map. It was based on a model I created to forecast presidential elections based on the performance of the stock market over three different time horizons in the months leading up to the election. That model had only been wrong once in the modern era and that was in 1992.

As you know, I am a contrarian by nature. When the masses line up one way, almost regardless of the topic, you will oftentimes find me on the other side. Predicting a Trump victory was an easy one for me as almost no one thought it was possible. And as you all know, I am not shy nor afraid to take my forecasts to the media and stand my ground when being pushed back. So, two years ago, I joined any media outlet who would have me to state my case. Many refused to give me air time until after the election.

Today is very different. We are on the verge of the mid-term elections where seats in the House and Senate are up for grabs. I have spent an inordinate amount of time trying to model this election like I had done with the presidential ones. After exhaustive research I conclude that in mid-term elections, the country does not "vote its wallet" like it does in presidential elections. The issues are much more localized. However, I did find some indicators of overall social mood to determine if a "wave" was likely in a mid-term election. A "wave" being a surge favoring either red or blue, Republicans or Democrats.

For 2018, there is no "wave" present, meaning that I am not predicting that the Senate and House flip from red to blue. I am, however, going against my contrarian nature and forecasting that the House goes from GOP control to control by the Democrats with a margin of 5-10 when all is said and done. Regarding the Senate, I see the Republicans adding to their majority by one or two seats. I also do not believe we will have the final tally for days or even weeks following the election. And don't be surprised to see both parties and their lawyers head to court before Thanksgiving in some races. We keep hearing how this is the most important election of our lives. Well friends, that statement is used every two years for every election.

Just for the heck of it, here is how the S&P 500 behaved around the last two mid-terms.

The stock market is now pricing in a split Congress. Should Congress remain red or turn all blue, you can expect an outsized reaction. If the former, stocks should rally significantly as Trump's pro-growth agenda will remain intact. If Congress turns blue, I would expect stocks to turn a little blue themselves, but not to any serious degree as the White House will remain under GOP control. It would almost impossible for the Democrats to gain enough seats in the Senate to override a Trump veto.

The most likely scenario would see the election's impact somewhat muted and attention immediately turn to the Federal Reserve as they meet on Wednesday and Thursday to discuss raising interest rates again. It won't happen this month, but it is likely to happen next month.

Finally, I want to repeat what I stated HERE last week. IF the final bottom in the major stock market indices has already been seen AND stocks are going to straight to new highs, I think the 10 year bull market in stocks will end in Q1 2019 and a massive decline will begin. Now, if you read what I wrote last week or just clicked on the hyperlink above, you know that I have a very different preferred and more likely scenario.

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To Your Financial Success,

Paul Schatz
President
Heritage Capital LLC

1 Bradley Road Suite 202
Woodbridge CT 06525

203.389.3553 Phone
203.389.3550 Fax

www.InvestForTomorrow.com

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