Infomail
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The Next 120 Days

In the short run, the market is a voting machine, and in the long run it is a weighing machine"
Benjamin Graham, Warren Buffet's Mentor
Economist and Professional Investor

We are living in a world where we always seem to be in turbulent times. In the past four months, we've had:

- A Brexit vote where the UK voted to leave the EU
- Puerto Rico went bankrupt
- An attempted coup in Turkey
- Several terrorist attacks on US soil
- Numerous terrorist attacks globally
- Numerous shootings of both civilians and police officers
- And protests like ones since the 1960s
- The two candidates running for their party's nomination for the US Presidency have the largest disapproval ratings in history

Between today and year end, the US Presidential election will be the focus of most news wires, and most likely will have an influence on the economy and financial markets.

So, here's my best guess at this point in time, what I see happening over the next 120 days:

1) Short term, we may see another 3-4% downside over the next few weeks. We are due for a bit of a break following the post Brexit rally, but nothing serious. The catalyst could be "just because", could be

more news out of Germany and Deutsche Bank (which as I write seems to have arrived at a deal with the US Justice Dept in the $5-6 billion range, a lot lower than the initial $14 billion fine announced).

2) The US Presidential election is on Nov 8th, just about 30 days from today. I have no idea who is going to win, but Hilary Clinton is +3% on the general, and seems to have an edge on the Electoral College vote. But with two debates to go, possible WikiLeaks, etc….anything can happen. I would guess the election will come down to turnout. A higher turnout especially with respect to Hispanics and African-Americans, would help Ms. Clinton. I would also suspect the polls are not capturing a large amount of Trump supporters who are not openly claiming to be so. I do know Hillary Clinton rallies are drawing hundreds of people, while Trump rallies are turning away thousands after arenas are full. One thing for sure, this is NOT your typical US election. I believe voters usually lean towards the economy and are most likely to support the candidates who they believe is most likely to stimulate economic growth and job creation.

3) Markets should have a decent rally in Q4. This year played out to an election year to a tee. Once the uncertainty is removed as to who wins, investors will place their bets accordingly. A Hillary win would help alternative energy, healthcare providers (because Obamacare survives), infrastructure. A Trump win I would guess energy (oil), defense, drug stocks, among others would excel under Trump. My best guess (and it's just a guess) is Q4 could put on 6-9%.

4) The US Federal Reserve will most likely raise rates in December, regardless of who wins the election. They have been threating to move for months; most likely, the time has come. There is also a good chance Chairwomen Yellen could resign if Donald Trump wins the election creating a whole bunch more of uncertainty. Trump has threatened to dismiss her if elected, and I would guess Ms Yellen would act before giving him the chance. In either case (a change at the helm or rise in rates, or both!) will simply add to the uncertainty.

5) The new President will be Inaugurated on Friday January 20th

   I would guess short term the markets will have already peaked by then, and markets will have other things to preoccupy themselves with.

6) Risk window opens wider February to April.

In the last seven years we have had a 15% correction, and two 10% corrections, but overall the trend has been higher. I think we get another in early 2017, but finish very strong in 2017.

I do believe, as I've written many times before, that we are in a secular market which started in 2009, and sector bull markets tend to last 14-15 years. Yes, markets can get overbought short term within that cycle, and can "correct" 15-20%, but all within a longer up trend. Since 1929 there have been just two secular bull markets: 1949 to 1966 and 1982-2000. Were there pullbacks within those cycles? Absolutely! (1962-down 26%) (Oct 1987-22%). Every time the US markets emerged from a multi-year trading range (1933-1949, 1966-1982, 2000-2013) the markets entered a longer term secular Bull market. I think we are there again.

And here we are, almost a bull market perfect storm: A bull uptrend, with questionable fundamentals, a negative sentiment with a lot of cash on the sidelines.

Let's see how the "crystal ball" works over the next 120 days.

Stay tuned,

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