STOCKBOY

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The Precedents on Presidents

Was 2019 to be Expected?

The 4th quarter of 2018 was a very tough time in the stock market and the S&P 500 fell about 12% over just 90 days. The low point for the year, surprisingly, was Christmas Eve, when the Dow Jones fell about 700 points during a short day when the market usually does very little.

During the year-end market carnage, I read a statistic of how the stock market performs over the 12 month period following such a quarterly market fall: the average return was around 20%. I wrote about this in my year-end letter to clients, with the caveat that one can never rely on statistical trends to work out each time as every situation is somewhat different. For 2019, thankfully, it turned out to not be different and the market was up over 30%.

The market rose due to the Fed deciding to focus on lowering rates and companies blowing past earnings expectations, thus lowering fears of an economic slowdown.

Does all of this suggest more upside in 2020? I have little idea and neither does anyone else. Market predictions are typically no more accurate than a coin flip or dart throw. But statistically, after a year where the market goes up over 25%, it's up the next year about 70% of the time.

I believe if all holds generally 'as is', then the market will likely advance in 2020 as statistics suggest (though likely not nearly to the degree of 2019). However, we should know by now that the notion that everything will continue to hold 'as is' is unlikely. Something will conspire to change our expectations and that's okay. Those with experience know the market future cannot be accurately predicted, especially in the short term.

Even if the market goes up in 2020, it seems doubtful it will be a stellar year (but I'd love to be wrong!). A modest rise seems reasonable, but so would a market fall – due to anything from further difficulties with trade deals, unrest overseas or election fears here in the U.S. or something not even on radars currently.

Does the President Matter to Wall St?

In 2020 we all know a presidential election is pending – perhaps all too well. There are a lot of reasons for people to feel strongly about the possible outcomes of the election. Though the presidential election will effect judicial appointments, policies and is the face of the country, who is President does not seem to be terribly important to the stock market, even though many people think it does. For example, when Trump was elected, the common belief (even by many Republicans) was the market would initially plummet. Well, it did plummet over night; however, by morning and during the next day, the market actually had modestly gone up.

Now many of those on the right are very concerned about someone such as Bernie Sanders or Elizabeth Warren being elected and suggest that they will pull all their money out of the market if that happens. History shows this would likely be a bad idea, just as if you pulled your money out of the market after Trump's victory (or other Presidents, for that matter).

Over the past 70 years, the markets have done better generally under Democratic presidents (though they are often considered less market-friendly) and, more importantly, markets have done well more often than not under either party's leadership. Yes, there have been notable down periods during the Carter and W Bush administrations, but it's hard to say that those presidents were the primary reason, though they were likely at least somewhat culpable.

Even if Warren or Sanders were elected (as opposed to Trump being re-elected or a moderate Democrat), it's likely they would have to notably reduce current rhetoric because Congress will likely keep radical plans in check.

As Abraham Lincoln said, "people's greatest dreams and worst fears are seldom realized." Instead, things tend to gravitate toward the middle and that is likely what would happen regardless of who is President. Other issues such as interest rates, Congressional composition, world trade and stability, along with black swan events, impact Wall Street much more.

The news regarding the election, particularly nowadays, generates strong feelings among many people of differing political persuasions. However, you're better off if it doesn't seriously impact your investment views, even if your candidate doesn't win. I had a client who didn't vote for Obama in 2008 (the election occurred, you may recall, during a market fall of 50%) and he was not pleased with the election results. As the market was near its low in the winter of 2009 (of course, we didn't know that at the time), he asked me to get him out of the stock market completely. I told him he would likely be better off in the long run staying in the stock market, at least to some degree, even though his candidate didn't win. He still decided we should sell and he put his money in CD's at his bank. Since then, the market has gone up about 400% while his CD's have probably gone up about 25%

Amazon Effect Overdo

As Amazon exceeds a trillion dollars in market value, the 'Amazon effect' continues to impact Wall Street. If Amazon claims they are exploring entering a new industry, or even if there's simply an unsubstantiated rumor to that effect, established companies in that particular industry often get a next day stock price haircut of 3-5% or more.

Usually, once the dust settles and more muted facts emerge, those stocks regain most their lost ground, but the Amazon effect is real, at least in the short term.

This speaks both to Amazon's power and investors' predisposition to overreact. As an investor, it's usually a good idea to not overreact to news, as it will usually moderate with time. In fact, often a better path is to take advantage of apparent overreactions and zig when others zag and buy good companies when there is concern.

UPS and FedEx, both well-run and well-financed package delivery companies, aren't going to be permanently impaired simply because Amazon is entering home delivery. They did quite well before Amazon existed and they'll do well going forward as internet delivery is only going to grow with time. Grocery company Kroger will also be just fine if Amazon steps further into the grocery world, beyond Whole Foods (perhaps the weaker grocery competitors will not).

As an investment, Fed Ex and UPS are more compelling to me because they dominate a growing industry where Kroger is simply reasonably strong in a slow-growth industry with low margins, but all 3 companies should be fine going forward. If not, they've made other major mistakes. FedEx is struggling currently (though still quite profitable), but their biggest problem is not Amazon; instead, it's focusing their primary business on higher-margin sectors, such as business to business deliveries. They'll no doubt figure it out and the stock price should bounce back.

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