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Mid-Year Comments
It's a Pre-Election Year

As long term value investors, we try to ignore the short term distractions, like trade wars, interest rate swings, high debt levels, and so on. However there is one historical trend that is going to be interesting to see play out. That is the fact that this year, 2019, is a presidential pre-election year.

As shown below, this year, the third in the election cycle, is when the market is the strongest, as a first-term president looks to get re-elected.

S&P 500 Performance
Year Three of a First Term President

President	Year	Return
Franklin Roosevelt	1935	41.4%
Dwight Eisenhower	1955	26.4%
John F Kennedy	1963	18.9%
Richard Nixon	1971	10.8%
Jimmy Carter	1979	12.3%
Ronald Reagan	1983	17.3%
George H. Bush	1991	26.3%
Bill Clinton	1995	34.1%
George W. Bush	2003	26.4%
Barack Obama	2011	5.5%

Source: Strategas, September 2012

Pre-Election Year History

The average annual percentage gain for the market from 1935 to 2011 was just under 10%, so the pre-election year performance has been extraordinary. The only exception was President Obama's experience. The only thing we can figure is that, since he was such a good politician, bringing Hillary Clinton into his cabinet removed his re-election threat and he didn't need help from the economy.

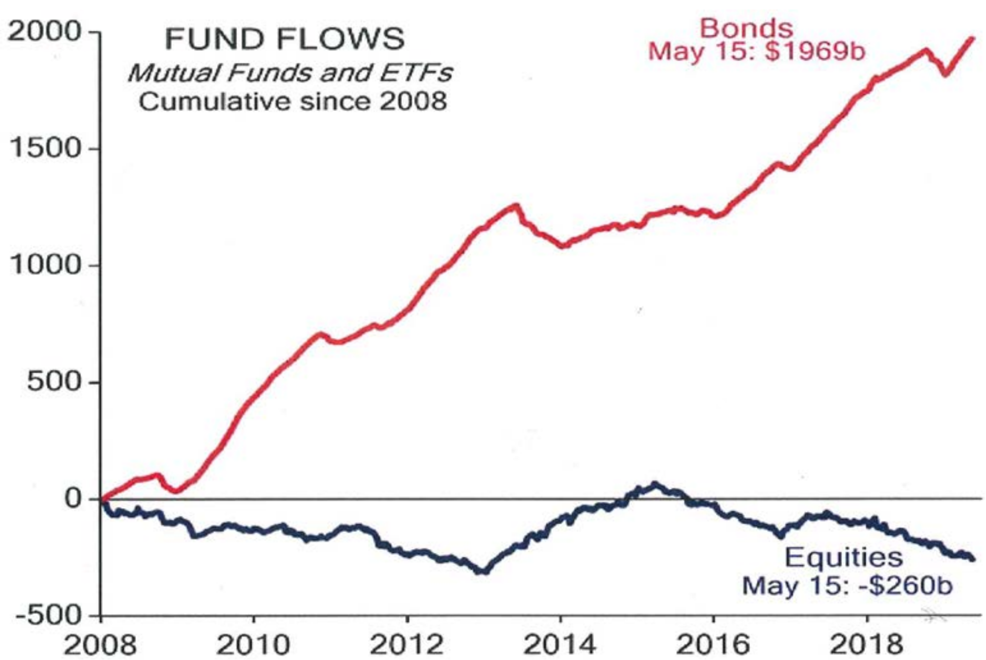
Every other president, to one degree or another, had a strong economy in the pre-election year working for them. The one closest to the present situation with President Trump, would be President Clinton. Both are very extroverted and hard-driving politicians. Clinton had going for him the advice of Wall Street insiders. Trump, on the other hand, is beating up on Fed Chairman Powell to continue to lower interest rates. There is probably a lot more in his bag and we will expect to hear more going into the election.

Alternative Investing- Update
It is hard to believe that it was only six months ago when we referred to the BlackRock study showing 68% of all institutional investors were shifting money into alternatives and out of equities under the guise of taking less risk[1].

Here we are six months later and the market is up 17%, or 35% annualized. Meanwhile, it seems like many alternative investments have lagged behind.

The chart below shows the performance of the cash/bonds alternative to equities. You can see that money has kept flowing into cash/bonds even though interest rates have dropped to one of the lowest levels in history.

Money Still Flowing
Out of Equity Funds and Into Bonds



Source: Evercore ISI, 2019

There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend might begin.

Of the 68% of institutional investors reducing equities, 45% said they would be increasing their holdings in real assets, 40% in real estate, 20% in cash/bonds, and 47% in private equity, much of which is in real estate. Below are two examples of alternative vehicles that are not doing well compared to the equity market.

Real Estate

Real estate investing in the country's heartland might be doing reasonably well, but the story is different in New York. *The New York Post* recently reported that 40% of the high end apartments on what is called "Billionaire's Row," featuring buildings that top out at 100 stories high, remain unsold[2]. Even so, construction in the luxury housing market continues at a feverish pace in New York.

One of the real estate jewels in New York is the Chrysler Building. In 2008, the Abu Dhabi Investment Council paid $800 million for 90% of the skyscraper. Recently, 100% of the Chrysler Building sold for $150 million.

Hedge Funds

In 2009, Kentucky Public Pension Plans decided to invest a portion of their portfolio in the hedge fund/alternative market. The objective was to get better returns with lower risk. **This has not panned out and the funds are now looking at class action law suit from Kentucky pensioners. They complain that the hedge funds generate excessive fees, poor returns, and ultimately losses.** A suit like the one in Kentucky is probably not the last we'll see.

Summary

If the Trump presidency doesn't completely collapse, a compelling argument exists for a market much stronger than average this year because of 2019's place in the presidential election cycle.

Forgetting the short term, for the long term investor there certainly seems to be enough reason for caution. Therefore sticking with stocks with attractive valuations and good dividend yields may be more timely than usual.

Jim Cullen

[1]Laverty, Kathleen. (2019, January 7) *Half of Institutional Clients to Cut Equities Exposure: BlackRock Survey.* Retrieved from www.FundFire.com
[2] Keil, Jennifer. (2019, April 29) *Developers Struggling to Sell Swanky 'Billionaires' Row' Apartments.* Retrieved from www.nypost.com

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