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Market Comments
Year-End 2019

I spend a couple hours every morning before the market opens and an hour at the end of the day keeping up with the financial news. One day after the close last January, I was watching the popular financial TV program, "Smart Money." The show features a group of very bright, articulate, experienced, and opinionated Wall Street traders. All of them seem to know it all, but never seem to agree about anything. **So what was unusual about the program was that when a guest asked the traders if any of them felt that the market could be up by as much as 20% by year's end, all of them said that it could not happen.**

A year later, the market is up 25% after making new highs 24 times. And now all of a sudden everyone has become more optimistic, including the "Smart Money" gang. A recent *Financial Times* headline captured the extent of the growing enthusiasm:

Investors pile back into equities

Financial Times, November 13, 2019

The accompanying news article featured a Bank of America poll that showed the biggest monthly jump in optimism in the survey's two-decade history, as investors experience what the reporter called FOMO: the Fear of Missing Out. The *Financial Times* story also talked about a Leuthold Group survey that showed the level of cash had the steepest drop in three years -- at 4.2%, the lowest level since 2013.

Election Cycle Update

2019 was no exception to the pre-election year's strong market performance. But what usually happens in the year to come, in the election year itself? Actually it is the second best year in the cycle as it benefits from the momentum coming out of the pre-election year. However, any time the pre-election year was up over 15%, the election year performance, while still up, usually dropped off, as you can see in the table on the next page.

The two years after a presidential election have historically been the most difficult for the market.

S&P 500 Performance

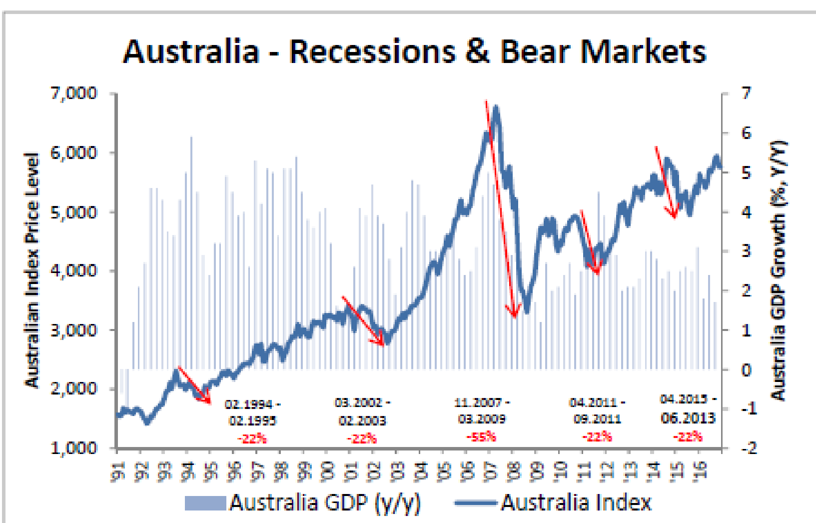
Pre-Election / Election Year of a First Term President

President	Pre-Election Year	Pre-Election Return	Election Year Return
Franklin Roosevelt	1935	41.4%	24.8%
Dwight Eisenhower	1955	26.4%	2.3%
John F Kennedy	1963	18.9%	14.6%
Ronald Reagan	1983	17.3%	4.2%
Bill Clinton	1995	34.1%	26.0%
George W. Bush	2003	26.4%	3.1%
Barack Obama	2011	2.1%	7.3%
	Average:	**23.8%**	**11.8%**

Source: Strategas, September 2012

The 10-Year Bull Market Lives On

There is a misconception among investors that as long as the economy is strong, the stock market will stay strong. History shows that things are not that simple. In a previous market letter, we showed how Australia has had 25 years in a row of positive economic expansion without a recession, but the country's stock market over the same 25 years has had five corrections of over 20%, with one being over 50%.



Source: Bloomberg, June 30, 2016

Pension Funds Still Embracing Riskier Investments

On November 8, 2019, a front page article in *The Wall Street Journal* reported that pension funds, looking at low bond yields, are scrambling to find decent long term returns. The article went on to point out how the funds are dabbling in riskier assets like real estate and direct lending. Some are making even riskier bets by buying volatile assets such as the 100-year Argentine government bond, while others are even going further afield by investing in greenhouses and waste management.

Back to the Basics

At the end of the day, a lot of what we've just talked about, including the election cycle, and a lot of what we've not discussed, including tariffs and trade battles in the headlines, are irrelevant from our perspective as long term investors. What is relevant is investing with a price discipline and with at least a five-year time horizon in mind. History shows that such an approach makes others factors in stock selection largely momentary.

Jim Cullen

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