



PATTERSON WEALTH MANAGEMENT

15415 CLAYTON RD.
BALLWIN, MO 63011

WWW.PATTERSONWEALTHMANAGEMENT.COM
JPATTERSON@PATTERSONWEALTHMANAGEMENT.COM

DIRECT: 636-779-0664
TOLL FREE: 800-536-8770
FAX: 636-537-8779
CELLULAR: 314-477-1686

January 6, 2020

Dow Jones Industrial: 28,703

2020: The Year of the Metal Rat

According to the Chinese zodiac: “The Metal Rat Year is going to be a strong, prosperous, and lucky year for almost all Chinese zodiac signs.”¹

The U.S. economy, as the Chinese zodiac, holds a lot of promise going into the new year (and into the new decade). The three bullet points that I find most convincing going into the new year are the following, as outlined by the Navellier Marketmail, 12/31/2019:

- Many economists are projecting a weak U.S. dollar in 2020. A weak dollar typically benefits large, U.S. multinational companies.²
- 2020 earnings for the S&P 500 are expected to come in at 9.6%, above the historical average of 9.1%.²
- The timing of the corporate tax cuts may peak in 2020, conveniently before the presidential elections.³

Before I give my thoughts on the 2020 outlook, let me give you just a quick thumbnail of 2019. Here are the total returns for 2019⁴:

Dow Jones Industrial Average	+22.34%
S&P 500 Index	+28.88%
NASDAQ Composite	+35.23%

In my view, what is lost in the conversation about the return of 2019 is that approximately 20% of the return came in the first four months of the year. If you remember, the last quarter of 2018, saw the market fall by nearly 20%. But once the Federal Reserve announced that they were changing their monetary policy away from raising rates to loosening rates- the market began to recover. By April 30, 2019, the S&P 500 was up 17.51%, the Dow Jones 30 was up 14.0% and the NASDAQ Composite was up 22.01%⁵.

Plainly, the U.S. market had a good year, but if you look at the S&P 500 over a 15-month period (from October 1, 2018), the return is roughly 10.5%⁶ - a respectable return, but not so exorbitantly high that the market is destined to pullback. And, if you look at it from a different angle, 2018 was essentially flat (after the 4Q sell-off), and 2019- if you factor out the 20% drawdown, then the subsequent recovery, the overall market earned roughly 10% for the remainder of the year (still a good return).

As we go into 2020, after such a volatile two-year period, I do think that there could still be some “gas left in the tank” for the overall stock market. ***With that said, I think the one big caveat for this year is the following: the Presidential Election.***

¹ <https://www.thechinesezodiac.org/horoscope-2020/>

² <https://navellier.com/12-31-19-bullish-indicators-bode-well-for-the-january-effect/>

³ <https://navellier.com/12-31-19-some-2020-wild-cards/>

⁴ Wells Fargo Advisors: Morning Market Outlook, January 2, 2020

⁵ Wells Fargo Advisors: Morning Market Outlook, April 30, 2019

⁶ Yahoo Finance

The S&P 500 Index has averaged a total return of 11.28%, during election years. Let's take a closer look at the return at the election year returns ⁷:

- When a Republican was in office and a Republican was elected (or reelected), the total return for the year averaged 11.9%
- When a Republican was in office and a Democrat was elected, the total return for the year averaged -2.6%

My concern going into 2020 is that after the prime earnings season (after the April timeframe), the market may trade more on news flow. And, now that the China Trade Deal (Phase One) has been completed, the stock market may be lacking a "carrot" to keep the "animal spirits" moving, especially during the 24/7 news flow presidential year.

As I mentioned, earnings are expected to be good, but inbetween the earnings seasons and perhaps without a catalyst to move the markets higher- I think the stock market may have a difficult summer...as presidential politics and the constant news flow cause money managers to take profits and neutralize positions going into the November elections. If you recall, in 2016- the market return was almost flat going into the election ⁸.

As of January 5, 2020, it is still very early in the process, but at this point- the choice between the two candidates looks to be stark.

- If the Incumbent President wins- the market will assume the same "corporate" friendly policies: less regulations and lower tax structures
- If the Democratic candidate wins- the market will have to adjust for more intrusive corporate policies: more regulations and higher taxes (corporate and individual)

In the past several years, the concept of "**Sell in May and Go Away**" has not proved to be overly profitable- it has been kind of a push, of whether an investor should move to the sidelines or not. But, after the stock market performance of 2019, which averaged 20% plus, **2020 may be a year which proves this tactical strategy to be of value. I think this may be a strategy that should be considered going into the April-May timeframe.**

Regardless of market performance and politics, I wish us all a healthy and successful 2020! Please feel free to contact me with any thoughts or questions, or if you would like to schedule a time to meet and discuss your investment portfolio going into the new year.

Best regards,

Jeffrey S. Patterson
Investment Portfolio Manager

The information contained herein is based on sources we believe to be reliable. But its accuracy is not guaranteed. Past performance is no guarantee of future results. The information provided herein was supplied in good faith based on information, which we believe, but do not guarantee, to be accurate or complete; however, we are not responsible for errors or omissions that may occur.

The views expressed in this report are solely the opinions of Jeff Patterson / Patterson Wealth Management, and are not endorsed by Cutter & Company, Inc. or First Clearing LLC.

⁷ <https://www.ftportfolios.com/Common/ContentFileLoader.aspx?ContentGUID=80deb583-33a5-4abf-9029-b04ce2a6cdac>

⁸ <https://www.ftportfolios.com/Commentary/MarketCommentary/2016/11/7/week-of-november-7th>

NOT FDIC INSURED * NOT BANK GUARANTEED * MAY LOSE VALUE

**Securities and Investment Advisory Services offered through Cutter & Company, Inc.
15415 Clayton Rd. * Ballwin, MO 63011 * 636-537-8770
Member FINRA, SIPC**