



CAPITAL INVESTMENT COUNSEL

The Columns

November 2019

Not to tempt fate, but I'm looking ahead to see what 2020 may bring. Year end is coming up fast and December is hard to beat for a market bull. With an average gain of 1.6%, December is typically the strongest month of the year. Before we get too confident, let's think back to December of 2018. Ouch, that one didn't follow the script. The Dow entered last December at roughly 26,000. By Christmas Eve, it was barely hanging on at 21,600. In like a lamb, out like a chop would be a good description for last December.

Barring a trade war mishap, December 2019 could resume normal service for investors with a quiet move higher. The mood is already positive and the S&P recently rose seven days in a row from the open to the close. That's the longest streak in two years. (Bespoke Investments) The trade war progress has been the main drive higher, but I like the normalization of interest rates. Short-term rates are resolutely lower than long-term ones which has led to increased profits for the financials. Tech stocks get all the headlines, but I find banks provide the heartbeat of both the economy and the market. The financials' 13% surge off of the October lows has me optimistic about 2020.

Much of the market's 2019 action has been about correcting the downside of late 2018. A year ago, many were convinced a recession was coming and sold accordingly. Unfortunately for them, a recession didn't appear, and the market vaulted higher. Some investors feel that this year's gains are temporary before the bottom drops out next year. History does not seem to agree. Looking at past returns, when a market had a gain similar to the one we've experienced so far in 2019, the following year has been up 14% on average and was positive 9 out of 10 times. The fact that many investors still don't believe that strengthens the bullish case in my mind.

Environment matters. Why do we see clusters of achievements all occurring in one place? Think about Florence during the renaissance or Birmingham, England during the industrial revolution. When I'm on vacation, I start my day with a run to take the pulse of a city. There's no better feeling

than pounding the pavement and soaking in that productive vibe. The energy is palpable. It's like plugging into the grid.

I recently came across the list of accomplishments for one of my favorite US cities. To be honest, I was surprised the list was quite so long. This city is where the first US patent office opened. (spoiler alert: it's was 1790) This same city produced the telephone, microwave, internet, and the razor. Talk about touching every area of your life! Not resting on its laurels, its recent work included the formation of Facebook and the sequencing of DNA. Facebook was probably a giveaway, but of course, I'm talking about Boston. It's funny how things build on themselves and momentum forms. What are they putting in the water up there? What are the odds that all those things would be invented there? Oh, it was also the birthplace of the American Revolution.

Just a month to go before my second favorite investing year: The Presidential Election. (BTW, midterms are my favorite year) I've amassed a database over the last 30 years, and you'll hear plenty about it next year, but for now, let's take a quick peek. The average gain for an election year has historically been 7%. Before 2008, that average was much higher at 9%, but the housing crisis drove markets 38% lower that year and skewed the overall returns. Election years can be volatile. Should we see some sort of spring pullback for 2020, remember that June has been the best month in a Presidential year and has an average gain of 1.9%. So, invest accordingly.

Here's one to ponder. How does a recession impact the election? I'm not much of a poker player, but even I know a royal flush is the one you want. For a sitting President, avoiding a recession in the two years before an election is a royal flush: it's almost impossible to beat. When there was no recession, the sitting President won 11 out of 11 times.

Throw in a recession and things get ugly. The sitting President only won 2 out of 7. Calvin Coolidge was the last to overcome that handicap 95 years ago. The last fifty years are littered with Presidents who failed to overcome the recession juggernaut: George HW Bush, Jimmy Carter and Gerald Ford all succumbed to the power of the recession. Will 2020 bring a recession? No matter the outcome, the 2020 election is already shaping up to be fascinating. If you have any comments, feel free to contact me at heddins@capital-invest.com or call me at 919-656-0836.

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