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The Pre-Election Blues

11/1/2016

Cash is king for the moment as we head into the November 8th election. The US stock market continues to act very heavy and is rapidly towards a mean-reversion buy signal that could happen any day at this point. For the past month I've been selling weaker holdings and raising cash with the concerns that this election more than any in my lifetime could be the most contentious. Last week's "October Surprise" of FBI revelations increases Donald Trump's odds of winning the Presidency. Even though his odds remain in the 26% range (realclearpolitics.com) it's enough to generate considerable angst within markets.

Presently we have very high cash levels in the 40% or more range. The holdings we've retained such as Elli Mae, Google, MKS Instruments and Gigamon have all come out with better than expected earnings this past week. The US economy remains slow but solid. It's my guess that when US stock markets become oversold to the point of bottoming these earnings leaders may take off higher. While Amazon missed on earnings, its revenue was ahead of expectations and the selling has been modest. Facebook reports on Wednesday and we hope they beat expectations once again. Several more holdings have yet to report.

So far this does not have the appearance of a cataclysmic bear market but a garden variety pullback limited to 10% or less.

Just like you, I can only guess what will happen on November 8th but regardless of who wins significant political animosity has been generated. With the animus so great, plus the high probability of the House remaining Republican a Clinton presidency would be met with the same political impasse President Obama has faced. In turn, any hopes for a significant fiscal package for the economy is unlikely.

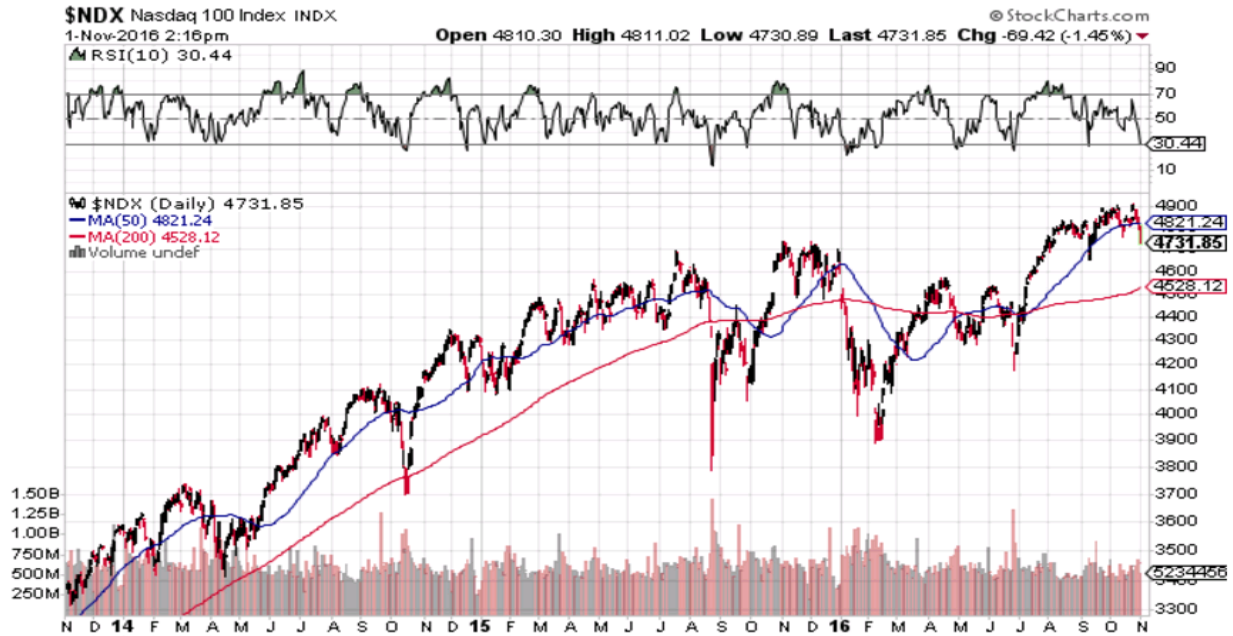
In the meantime, now is not the time to be fully invested in anything. Bonds are offering no protection at all (quite the opposite) as the yields are rising across long dated maturities.

As of today 11/1 we are finally starting to see an acceleration of selling in stocks, this is good. The last days of a market pullback usually witnesses some dramatic, climactic selling before the eventual rally begins.

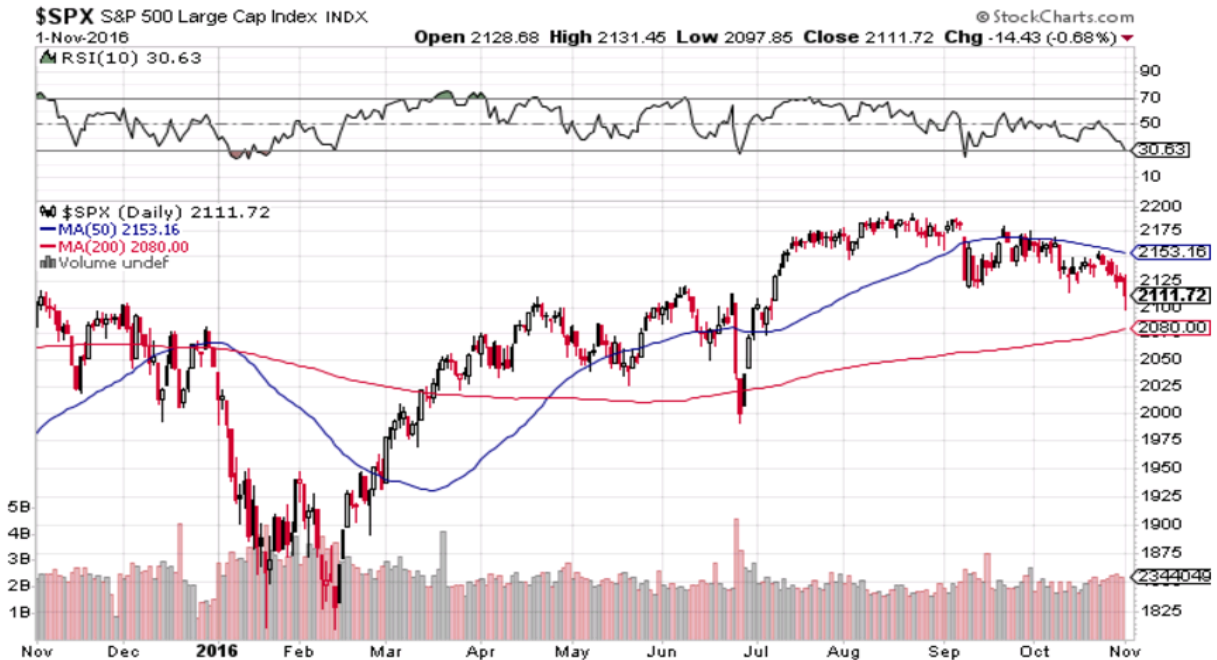
As I mentioned last month it only makes sense to be fully invested when the stock market is in a good uptrend not the sideways pattern we've seen the past two years. With a sideways market making little to no net progress a "buy the dips and sell the rips" or Mean Reversion strategy is usually best.

The Nasdaq market remains the strongest market due to the high number of tech based growth stocks.

A Buy signal is created when the 50-day moving average (blue line lower chart) is above the 200-day moving average (red line lower chart) and the RSI (10) Relative Strength Indicator 10 days moves below 30 (top chart). Sell or lighten when the RSI10) rises above 70. At 12:17 pm mst the reading is now 30.44, so we're just about there. For the time being I'll sit on my hands as "oversold" can become extreme.



The S&P 500 Index looks a lot weaker which is one reason I've avoided this market. The SPX is approaching a buy signal as well but I would like to see more selling first.



Happy voting day and may all of your voting wishes be fulfilled!

Brad Pappas

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