

Surprise, Surprise

We are entering the last few weeks of 2016. To say the very least it has been a surprising and interesting year and one with no small amount of contention at home and abroad. As a lifelong Chicago Cubs fan, if someone would have told me 12 months ago that the Cubbies would be World Series Champions, my reply might have been something like, "yes, hope springs eternal, there's always next year! (108 of them)." Right up there with a big "W" for the Cubs as a surprise, is having Donald Trump as the President-elect. The odds of that at this time last year were pretty slim.

Polls and Experts

As much as people try, it is hard and sometimes impossible to predict exactly what will happen. This is true even when there is a fifty/fifty chance of being right or wrong. Whether you are assessing the possible outcome of sports or politics it is very hard to know in advance what will happen and the impact the event will have. The vote in the UK to leave the European Union, known as "Brexit", was one such event in 2016. Investors immediate reaction was to fear dire consequences and markets dropped. As the surprise factor wore off, so did the impact on investors and markets came back.

Anticipation

Prior to our own elections this month, the polls showed the incumbent party would win the White House. The markets tend to like divided government, perhaps with the theory that no one can do too much harm. So, what we saw in the markets looked like "steady as she goes." Always prepared for the "what if scenario", most experts relying on the idea that markets tend to not like surprises projected a 10-15% correction in stock markets should the other candidate win.

About Face

As it started to become apparent who would win, the expected market reaction took hold, but really only for a few hours. In afterhours trading stocks dropped significantly, but by the end of the trading day after the election stocks were up and bonds were down. Investors have, over the weeks since, continued these two themes and we have seen a strengthening dollar. This was not what the experts had expected.

Why

Here we go again. There is a general sense in the markets that the possible policies of the new administration will expand the economy more than if the other candidate won. With this "pro-growth agenda" comes the expectation

that inflation and interest rates will climb. This is not good for bonds in the short run. However, an increasing economy is viewed as good for stocks. Hence the trends we've seen in the markets. It will be fascinating to see over the next year whether the current expectations match or differ from what we will actually experience.

Count On It

While the general direction of the new administration may be known, what it will accomplish is not. We can also depend on things occurring around the globe that no one anticipates today. Does anyone want to guess how the Italian Referendum in the next week will turn out and how it will impact the EU and then global markets? We are sure to have surprises in the next 12 months.

Bottom Line

Come next year, the only thing I am completely sure of is that we will have experiences unforeseen and unexpected today. I also have a sense that investors will need to be patient and that there will possibly be an occasion or two to make some opportune investments. The US seems to have the most vibrant and broad-based economy, a good fortune for us and good reason for us to be grateful. As we enter the season of Advent, let me wish you peace and prosperity as we move forward from what has been a tumultuous year.

Your Feedback

I would love feedback on this newsletter. Future issues may include a host of good ideas, insights, specific steps to take financially, life insights and of course "Wit and Wisdom". Most importantly, I'd like it to be of value to you and to encourage an exchange of great ideas and insights. Please send your feedback to:

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