

## Market Observations November 2016



### THE WAIT IS OVER

The wait was over for baseball fans last week as the Chicago Cubs won the World Series for the first time in 108 years. The wait was over for U.S. citizens yesterday as the eighteen-month presidential election process ended with victory for Donald J. Trump. Some perspective from both these notable events is timely.

### The Drought Ends

In addition to winning the World Series in both 1908 and 2016, the Cubs enjoyed great seasons winning 64% of their games in both years. For all the years between, their average annual winning percentage only was average at 50%. However, they ranked first or second in their division 20% of the time. Oh, and the Cubs won the World Series in 1907 as well.

Many changes can occur in 108 years. **Table I** provides a few. Over this entire period, the price level of the Dow Jones Industrial Average ("DJIA") grew at a compound annual rate of 5.1%. The DJIA had a great year in 1908 with a total return (income + price appreciation) of +46.6%. Wages kept pace as well over 108 years with a compound annual growth rate of 4.5%. The price of a new Ford automobile grew at a compound annual rate of 3.0%. At the same time, the technology and advancement in today's vehicles bring more comfort and value to drivers than found in the Model Ts that first appeared 1908.

### The Campaign Concludes

The U.S. presidential election itself provided every bit the emotional ride as the preceding campaign. **Chart I** plots the hour-by-hour probabilities of victory for each candidate from the closing of the polls through the ballot counting. High Clinton expectations held for awhile and then tumbled steadily. In after-hour futures trading as shown in **Chart II**, the DJIA tracked directly with the Clinton probability and reached a decline of -5% from the election-day close of regular trading. By the open on Wednesday, the overnight loss was totally recaptured. Until policy directions become more clear in the weeks and months ahead, a higher level of volatility is likely in all financial markets.

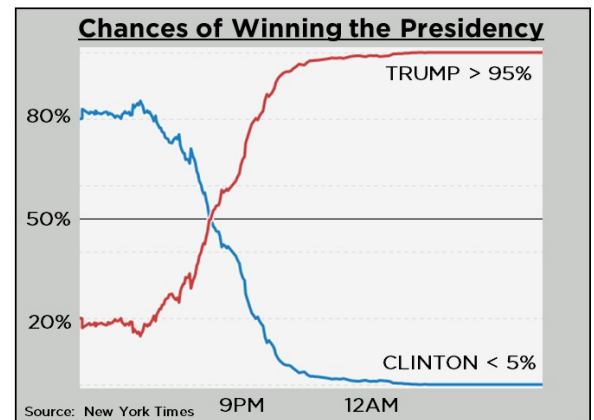
### Investment Implications

Taxes, trade, immigration, regulation. Challenges abound and waiting begins anew for the actions of a new U.S. President and a new U.S. Congress. The balance between dogma and pragmatism likely will determine how and when these challenges are addressed. Policy outcomes will influence future trends for economic growth, inflation, interest rates, profits and, as a result, market returns themselves. Portfolios should be diversified appropriately at all times. Waiting is not an option.

**Table I**

	1908	2016
Average Daily World Series Attendance	12,446	39,657
# of States	46	50
Average Hourly Wage	\$0.22	\$25.21
Price of a New Ford	\$850	\$21,000
Dow Jones Industrial Average Price Level	81.54	17,959.64

**Chart I**



**Chart II**

