

# ***What a Difference One Year Makes...***

*By Bob Deitrick, CEO  
Christmas Eve, 2019*

*First, we want to wish each of you a Merry Christmas and a peaceful and relaxing holiday as Christmas Day arrives this week. For those celebrating Hanukkah, Steven and I want to wish each of you a Happy Hanukkah this week as well.*

It is amazing what a difference a single year makes. Last year, leading up to Christmas we were in the throes of a precarious correction. In fact, the market bottomed out on Christmas Eve before starting its' big climb back. One year later, the S&P 500 and the NASDAQ have both appreciated considerably. We predicted this would happen if a trade deal were memorialized, and it looks like we are going to get Phase One of the China Deal done in January.

**Our predictions to begin 2019 follow:**

*Prediction 1: We predicted the Fed would not raise and would likely lower rates in 2019 — Correct.*

*Prediction 2: We thought a final China trade deal was unlikely but that it needed to happen sooner than later – we were correct assuming this happens this year...*

*Prediction 3: Stocks would bounce back after the abysmal year in 2018 which was aggravated by the trade war. The S&P is up 28+% this year and the NASDAQ is up over 35% - it's best year since 2013.*

*Prediction 4: The markets would bounce back and begin to appreciate in 2019, despite the possibility of impeachment. The economy was strong, and we knew the President would likely be acquitted in the Senate. That has played out as we had suspected – at least so far.*

*\*While these corrections were correct, there's no guarantee or suggestion here that any or all of our current or future predictions will be correct.*

*So, with a trade deal near being done, the runway is clear for stocks to head higher next week, and we contend that the market could continue to lift off in the first quarter before taking a pause.*

*The announcement by the U.S. and China last weekend that Phase One of the "trade deal" had been reached fueled the rally last week. President Trump said last week he had a "good talk" with China President Xi Jinping and a signing is being arranged. Let's see if this deal sticks, but I suspect it will as Trump wants to get a second term.*

*The manufacturing sector has started to show signs of improvement providing a boost to sentiment on Wall Street. The bond market, which sent warning signals earlier this year is no longer predicting recession as yields have risen. Against that framework, the Fed is sitting on the sidelines - for now.*

*The market shrugged off the impeachment last week assuming Trump would be acquitted in the Senate, and there will be little negative impact affecting fiscal or monetary policy.*

*Contrary to the melt down in December of 2018 when everyone was predicting doom and gloom, today, stocks are witnessing their best December in nine years and their best 4<sup>th</sup> quarter since 2013 as*

***the S&P 500 pushed through the psychological 3,200 level on Thursday, sans hesitation, and kept going.***

*The Santa Rally will continue as there will be little pressure to sell as we had last year because very few have had losses in 2019. This year, investors could face large capital gains if they sell which contrasts tersely with a year ago, when the market reached a selling crescendo on Christmas Eve.*

***“It pays to be patient, and last year was a time when remaining calm made sense” – Bob Deitrick***

*Yale professor and Nobel-winning economist Robert Shiller commented recently that “the record market rally could last for months.” Shiller, who invented the CAPE ratio, suggests: “there’s an emotional high gripping the market right now that shows little signs of fading.”*

*Shiller wrote a book I read recently entitled: “Narrative Economics,” which conceives the notion that popular stories drive economic events. It’s a concept that applies to “the current market dynamics and the importance of psychology”, per Shiller. Shiller builds his case by highlighting the Shiller CAPE ratio which shows the P/E ratio based on average inflation-adjusted earnings over the past 10 years is near 30, which is “quite high by historical standards.” However, going back to the year 2000, the ratio got up to over 44 or 50% higher than it is today. So, there is some room to appreciate - per this index.*

*We at PFP remain in the “bullish camp” going into next year – to the extent a trade deal gets signed... Unless the Democrats nominate a centrist, Trump will be re-elected as most folks will vote their pocketbooks and their 401(k)’s next year. They will ignore Trump’s proclivity for drama and poor behavior. The Democratic candidates have said they will increase the corporate tax rate. If corporate taxes go up, you’ll shave 1% off S&P earnings for every 1% increase in the rate.*

*We remain optimistic as most macro-economic indicators remain strong. Global manufacturing and trade will be a tail wind over the next four months. Further, the Fed has created a stealth version of “QE-3” and are adding more liquidity to the market. Wage growth is expanding so consumer spending will remain strong... These are big advantages for Trump going into 2020 not to mention that the RNC and Trump have raised \$300 million for his re-election campaign in 2020. That is more wealth than any other sitting president in history - one year before the election! And with Democrats 4 or 5 months away from settling on a nominee it will be an onerous task for anyone to catch up. Historically, Presidential election cycles are good ones for the market. That has been the case in 13 of the past 15 Presidential election cycles - with 2000 and 2008 being the only exceptions.*

*We remained optimistic last year as the market went through a turbulent correction. As we close out 2019 - there may be the desire to become risk averse; however, we believe that the fundamental case for stocks is strong in 2020, so we are not going on defense. The consumer is strong and if a China deal gets memorialized, we could have an enjoyable year in 2020 - contrary to the year lost in 2018.*

***We want to recognize our Lifetime Achievement Award Honoree, Mick Rings, whom we honored at our 35<sup>th</sup> annual Christmas Party in December. Congrats to Mick and his family! Finally, we want to thank you for your business, and we wish you a Merry Christmas and a Happy and Prosperous 2020!***

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