Happy New Year! I think many of you will reluctantly confirm the old adage that the older we get the faster time seems to pass. 2016 will be remembered for many reasons, chief among them may be the surge in populism helping shape the results in both the Brexit vote as well as the Trump victory…both outcomes that were given little likelihood of success by most market watchers. Nearly as surprising as these outcomes were the ensuing market reactions as broad equity indexes responded generally positively to what the majority of experts had said would be quite negative catalysts.

The result was that many investors that had allocated their accounts anticipating the widely held view on the outcomes found themselves re-allocating assets afterwards in an effort to adjust, or catch up with the market. This created a one sided trade of sorts for a while with more buyers than sellers attempting to acquire certain sectors or companies that appeared to be the potential beneficiaries of the unexpected outcomes. This in turn produced a perfect scenario for the momentum, algorithm based speculators to get engaged. When their computer driven trading models see a sector or company move upward a certain percent in a certain time period they will buy, simply trying to get in on the upward momentum of the trade. Of course, this pushes the price even higher causing more aggressive momentum buyers to try get a little piece of the move as well. We call this activity “a dog chasing its own tail”.

We love analogies (and thank you for putting up with them) so let us try one here. Imagine a football team that is not doing as well as it has in the past. Suddenly they get a new coach who is bringing a whole new offensive scheme to the team along with a whole new set of players. Many of the fans would be excited and optimistic. Some, so certain of the new system, might even pre-purchase season tickets or tickets to the play-offs and even the next Super Bowl. At which point even some skeptical fans seeing the price of tickets surging, might feel the need to buy some before they get too high…all creating even more demand and all of this before a single game has taken place. Not unlike a dog chasing its own tail. Of course, the real test comes when the season actually starts and the coaches need to move from discussing pages in the playbook to successfully executing them in a real game situation. We believe this is the point we are fast approaching. As voters, the team owners have put new coaches into the system. These coaches have outlined a game plan that is quite different from that of the previous coaches. Some doubt the new game plan but many believe it will produce better results than the previous coaches so ticket sales are up, souvenir sales are up, and excitement is up. So now the season is about to start and theory, hope, and optimism will be replaced by reality.

Of course, in this analogy we view the United States as the team and we always root for our team, regardless of the coaches or game plan currently in place. We are hopeful that whoever the coach is can create a winning attitude and generate winning results, but ultimately no amount of optimism about the future can replace actual results. Over the past month or so, some sectors and individual stocks that may benefit from the new playbook have been driven up as if the season is already over and the championship won. We are not ready to spend the hard earned assets of our clients on Super Bowl tickets just yet, especially before any games have been played. As anyone who has tried to lose weight will attest, talking about change is a far cry from actually implementing and maintaining change. We will strive to do what we do. As you know, we find calculation and investment a better approach than hope and speculation. As always, thanks for your time, your trust, and your patience with our analogies! Please call on us anytime.

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