John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday January 15, 2020

At first, last year looks like a near record setting year for U.S. stocks. The S&P 500 stock index was up 28.9% last year. The problem with that conclusion is the starting point for the calculation. The S&P 500 stock index went down 15% between November 30, 2018 and December 24th. This raises the question, what would be the S&P 500 2019 gain if stocks had not dropped 15% late in 2018? The answer is that the S&P 500 2019 gain would be slightly less than 10%. The bottom line is that the 28.9% gain is misleading. Worse, it gives pessimists fuel for their never-ending gloomy stock market forecasts. Remembering the late 2018 stock market decline keeps the 2019 gain in perspective. It still was a good year for stocks, but not so good as to justify forecasts of a coming big decline. If the headlines said stocks were up 10% or slightly less in 2019, then expectations of a similar gain in 2020 would seem like a very good bet.

Argus Research is among the professional organizations talking about a 10%, or slightly less, gain in earnings and stock prices this year.

The Economist in the January 4th, 2020 issue had this to say abut the outlook for stocks in 2020: "Fears in 2018 for the year ahead proved misplaced. Those for 2020 may be too. But investors should not bank on it. Only 12 times since 1928 has the S&P 500 posted a better return than it did in 2019. Each time the following year turned out weaker than the one that came before."

That ominous warning is based on a 28.9% 2019 return for the S&P 500, ignoring the late 2018 decline. I wonder what the editors of *The Economist* would say if they took into account the late 2018 decline and judged 2019 as a plus 10% year for stocks. They certainly could not justify their January 2020 warning for investors.

The truly unusual thing about financial market performance in 2019 is that it was a good year for commodities, government bonds, corporate debt and gold, as well as stocks. Gold had a very good year, up 19%. A broad measure of American bond prices was up 9% last year. When stocks have a good year gold usually goes down. But here again the key is the real gain for stocks in 2019. Gold did *not* plunge in late 2018. So what really happened in 2019 is that investors pushed the gold price up more than stocks. And that is a contrary stock market indicator. The strong gold price says that stocks are still climbing a wall of worry. We are a long way from a euphoric stock market bubble.

Worry about rising tensions in the Middle East has replaced worries about a trade war with China. President Trump has concluded a phase one trade deal with China. Critics call it a mini trade deal. They miss the point that what has been accomplished is a process where both sides feel comfortable negotiating sticky issues. This is significant. It gives China and the United States a way of discussing issues and negotiating deals in the future. President Trump may not have achieved a far-reaching trade deal, but he has defused the potential for a trade war that could disrupt the global economy.

At the same time President Trump has escalated tensions in the Middle East, Iran in particular, by killing General Soleimani. *The Economist* on the cover of the January 11th issue has a picture of General Soleimani with this caption: “Masterstroke or madness?”

Iran has responded by firing missiles at U.S. military facilities in Iraq. Iran’s missiles have about a 1,200-mile range. The facilities that were attacked were about

1,000 miles away, close to Iran's missile limit. No Americans were killed. President Trump responded by saying he would not attack Iran's economic and military targets but would impose further sanctions. That calmed the waters, but left investors worried.

Once upon a time Iran had a strong and growing economy. In the 1970s my employer, Citibank, along with other banks, sent bankers and investment advisors to Iran looking for wealthy customers. In those days, Iran was very prosperous and a net exporter of agricultural goods. Then came U.S. President Carter who took steps to bring down the Shah of Iran. He succeeded, only to have the Shah replaced by a theocracy that has literally destroyed the economy. The Mullahs of Iran are in trouble. There are growing protests at home. Iran's only female Olympic medal winner has defected to Europe. And Iran does not have the military capability to fight the United States. Whether eliminating General Soleimani was a masterstroke remains to be seen. But it certainly was not madness that leads to war. More important for investors, it is not likely to have an impact on the U.S. economy.

There has been some good economic news. The ISM Non-Manufacturing Index came in at 55.0 for December, up from 53.9 in November. A reading above 50 indicates expansion.

Interest rates are expected to remain low. Neither the Federal Reserve nor independent economists are forecasting interest-rate moves this year.

This is an election year. Paul Tudor Jones - a Palm Beach, Florida based hedge fund manager - says the stock market would fall 25% if Elizabeth Warren were to be elected President. The same can be said about Bernie Sanders and his Socialism. In my opinion it is a shame that there has been a serious lurch to the left in the Democratic party. We need a strong two-party system. The last left lurch by Democrats ended in a crushing defeat. Americans can see for themselves that Socialism does not work. The people of Venezuela who voted for Hugo Chavez and Socialism are now suffering from sky high unemployment, destructive inflation, a worthless currency, malnutrition and vanishing medical care. The facts from Venezuela make me wonder how any politician can promote Socialism. I also believe that American voters will not be fooled and will reject Socialism.

I will have the next market review and update one week from today on Wednesday January 22, 2020.

All the best,

John Dessauer