HedgeFolios Strategy Advisory – Dec. 8, 2016

“Go with the Flow”

12-8-2016

An old saying in the markets is “go with the flow.” And this may be the time to follow that.

After the close yesterday we wrote in our trading services for active traders, something which now also applies to active investors, such as members of HedgeFolios:

> We are no longer expecting much of a pullback ahead of the Fed meeting. If there is one, we would just increase exposure to the long side. As one CEO of an oil company said today, we got two early Christmas presents this year: the Trump election, and the OPEC meeting.
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> We should not look a gift horse in the mouth, as the old saying goes. Let’s go with the flow. In view of all the volatility around the election, we wanted to make sure it wasn’t just a short term surge. As we say, we would rather miss a boat rather than catching one that sinks.

We had accumulated a high cash position around election time, because of the great uncertainty. Today we deployed much or all of that, depending on the model portfolio.

We believe that there will be a good year-end rally as under-invested money managers will have to get invested so that their year-end reports to clients won’t look overly conservative.

Then we come into the first part of the year. We expect the market to do well, perhaps going into the middle of the month.

After that, we will start looking for yellow warning signs going into the inauguration.

We will not get complacent because this type of sudden enthusiasm often rings alarm bells. There are exceptions, such as at very important market bottoms in 1982, 2002, and 2009. But those were bottoms. Some of the market indices were near record highs ahead of the election. That makes it difficult.

However, it could be justified to say that a bear market in indices such as the RUSSELL 2000 small cap index and the NYSE COMPOSITE occurred from the mid-year high of 2015 to the January 16, 2016 low. The NYSE was down over 20%, and the RUSSELL 2000 was down 27%, both could be defined as bear markets, or at least corrections.

These are the same indices that have done so well since the election. Because those ‘corrections’ or ‘bear markets’ were mild, it would be logical that the current up-move will be short. Cash accumulates during bear markets. There wasn’t much time from 2015 to 2016 for that.

CONCLUSION: we will participate in this rally. One brief psychological hurdle will be the Fed meeting next week. After that, the coast should be clear for several weeks.

You know we are much more subdued about the first year of the new Administration in the 2017. There are those who will try to sabotage its success. However, Trump will work hard to turn the country around. He is a populist, the first president since Ronald Reagan who is for the people of the country, instead of working for the special interests. That is a monumental change, as it was in 1980.

Wishing you successful investing,

Bert Dohmen and team
Dohmen Strategies, LLC