

# The Market in Review

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March 23<sup>d</sup>, 2018

## This week's articles and insights

1. *Tariffy-ing*
2. *The Art of the Deal*
3. *Long Range Views*
4. *Ask the Audience*

**“I believe alien life is quite common in the universe, although intelligent life is less so. Some say it has yet to appear on planet Earth.”**

*- Stephen Hawking*

## Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	23,533	-5.67%	- 4.80%
S&P 500	2,588	-5.95%	- 3.19% (- 0.96% in \$CDN)
TSX	15,224	-3.10%	- 6.08%

## Tariffy-ing

“Sometimes you're the windshield  
Sometimes you're the bug.”

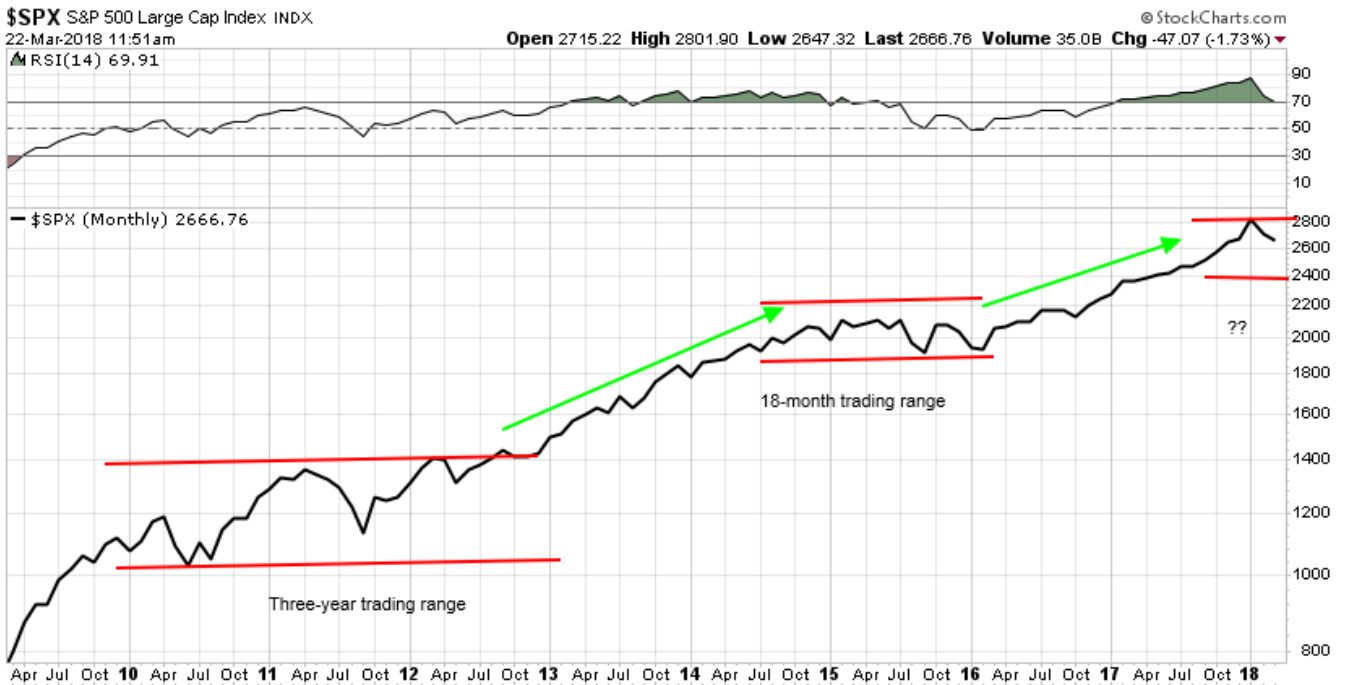
- from “*The Bug*” by Dire Straits

A tough week where little worked. Even technology shares were battered this week. Energy stocks finally rose a little, suggesting their long rout may be close to ending. Lots of nervousness around.

Markets don't always go straight up or straight down. Many times, they go sideways in a churning fashion and end up months later exactly where they started.

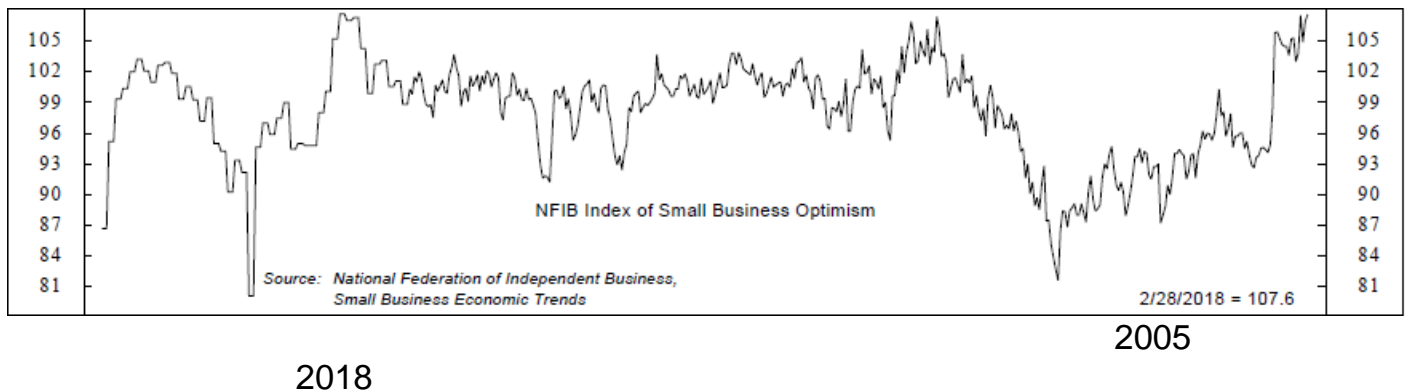
This is where we are today. We have good earnings and strong economies pushing stocks up, but expensive valuations and angry politics pulling us down.

In fact, after long uptrends, we will often consolidate for many months, as we did in 2010 through 2013 and 2014 to 2016:



On the positive side, economic strength is broadly-based. Of the 47 largest countries, 44 have positive trailing and forward earnings growth. 75% of all companies have revised their earnings higher than expected (source: Ned Davis Research). This is normally a leading statistic for higher future stock prices.

Small business owners in the US are as optimistic as they have been in over a decade:



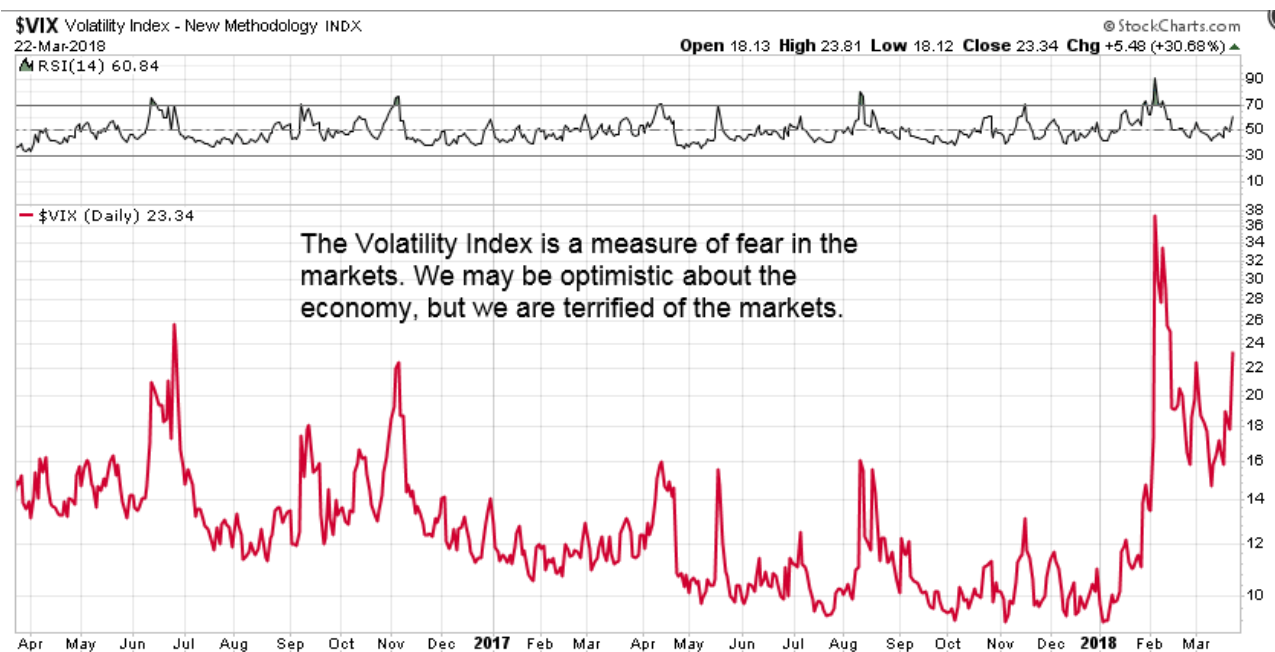
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But there are also plenty of negatives to go around.

Interest rates have been marching higher, with another rate hike this week in the US. Higher bond yields draw money away from the stock market.

And thanks to the US “America First” assault on global trade, there is suddenly great uncertainty that we are on the edge of another 1930s-style tariff war. Investors are nervous:



This will continue until we get resolution, one way or another.

## The Art of the Deal

The thing we have to remind ourselves is how President Trump negotiates:

*“My style of deal-making is quite simple and straightforward. I aim very high, and then I just keep pushing and pushing and pushing to get what I’m*

*after. Sometimes I settle for less than I sought, but in most cases I still end up with what I want.”*

- *From “The Art of the Deal” by Donald Trump*

His style is to ask for 10 things, then settle for 5. After all the bluster over North Korea, a meeting has been set and yet no bombs have dropped. The US-Canada-Mexico NAFTA talks are suddenly warming up as the US side is dropping some of its more contentious demands. The US will still end up with some trade “wins” but they will be ones Canada and Mexico can live with. The steel and aluminum tariffs have also been watered down as more and more countries have been granted exemptions.

We expect the tariff fears will also recede as China agrees to certain limitations on its technology transfers. It is all part of the ‘art of the deal’ to the new president.

## **Long-Range Views**

Meanwhile, we stick with the conclusions of both our long-range services:

Ned Davis Research:

*Our Global Sentiment Composite indicates that plenty of bad news has been priced into the stock market, which means a breakout can be expected when attention shifts back to the ongoing global economic expansion and favorable earnings outlook.*

Lowry’s:

*To state the obvious, the market is still in a corrective stage.*

*What is happening is this is a bull market that still appears alive and well despite all the handwringing about what the future might hold. Expanding Demand and contraction in Supply is the classic description of a healthy bull market.*

*Thank you for your referrals this month! They are always handled with great care and discretion.*

## **Ask the Audience**

Why is democracy inherently superior to its rivals, socialism and communism?

And yet, why are more people rejecting it?

In the game show *Who Wants to Be a Millionaire?*, contestants are offered multiple choice questions. When they reach a problem they cannot answer, they are offered three 'helpers', of which two are the most powerful:

1. Ask an expert.
2. Ask the audience.

Using the "ask an expert" option gives a 65% chance of a correct answer. This compares to a random guess at 25%, since there are normally four possible answers.

The "ask the audience" option is the best of all, however. The collective answer from the audience is right 91% of the time.

This isn't the first time we have seen this. In 1987, Jack Treynor asked students to estimate the number of jellybeans in a jar. The jar held 850 beans and the group estimate was 871. Only one of the fifty-six people in the class made a better guess - the group was smarter than any individual.

The same experiment done with completely different classes revealed the same superiority of group guesses. It applies to a number of scenarios, from betting odds to juries to corporate boards. Experts know a lot, but they tend to be narrow. Groups simply know more than any individual can.

Interestingly, the more dissent and diversity in the group, the better the collective answer. When the group is more uniform - from the same sex or age, or even to level of intelligence - the worse the average answer.

Throughout history, human society has organized itself around powerful chiefs, kings and, occasionally, queens. This was the original "Ask the Expert" system. It

was a big improvement on the “survival of the fittest” chaos found in nature, but not as good as what came next.

Democracy was invented by the Greeks two thousand years ago, though modern democracy probably emerged with the English parliament in the Middle Ages. It was a system of collective decisions built on a foundation of dissent and diversity. Yes, we inevitably delegate power to a small group of elected officials, but if they perform poorly, the group gets to kick them out and start over. **Despite all its problems, democracy and its fraternal twin – capitalism – have been the world’s most successful systems** to organize people in terms of individual freedom and to increase wealth. Indeed, the stock market is the ultimate “Ask the Audience” arena.

In contrast, communist and socialist systems offer much less dissent or diversity of thought. Power concentrates until, as George Orwell wrote in *Animal Farm* “All animals are equal, but some animals are more equal than others.” Everyone is entitled to the same share, but only a few receive it.

Such societies inevitably evolve into one-party and one-ruler states. Just look at Russia under Putin and China under Xi today. Sadly, more nations appear to be sliding towards single-party rule, such as Turkey, Russia, China, Egypt, Iran, and even Saudi Arabia. There is great appeal in giving control to one powerful man (sorry fellows – it is usually a man). It may even be superior for a period of time, such as China from 1980 to today, and in Singapore, but it is inferior to decisions made by the divergent masses.

So, if “Ask an Expert” is inferior to “Ask the Audience”, why do we seem to be moving back to the less-efficient system in many countries?

One reason is because a sole ruler offers certainty. No need to worry about a lost election (they’re rigged) or whose fault it is for all the country’s problems (foreigners and dissidents).

Another reason is social media. Facebook (**NASDAQ FB**) and SnapChat (**NASDAQ SNAP**), to use two examples, have connected us like never before. But they have also made us think alike. We read what we believe and these sites steer more content to us that skews the same way. Thanks to computers, smartphones, modern media, and social media websites, we are collectivizing into our own tribes. If you are right-wing, you never even have to look at centrist or left-leaning stories. Social media will gladly send you only articles like the ones you already believe in.

The “Ask the Audience” option breaks down when everyone thinks alike. This undermines the democratic voting process by removing the diversity and dissent that are so important to better decisions.

Which brings us back to Facebook.

This week, Facebook was accused of allowing an outside company, Cambridge Analytica, to use data from up to 50 million Facebook users to sway opinion toward one political party in the recent US election. Facebook had demanded Cambridge Analytica erase the data in 2015. The company lied and said it had complied. Facebook is now in the hot seat for not doing more to protect its users’ data.

Social media is an amazing tool for connecting to others, meeting people, reading news, and advertising. Like any tool, though, it can become a weapon in the wrong hands. Expect more regulations on data privacy for Facebook, Google and all the tech giants in the years ahead. They will face increasing costs to monitor where their data ends up.

But rest assured, they ain’t going anywhere. Today’s tech giants are still likely to remain the “growth leaders” of tomorrow’s economy.

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*Facebook, Inc. - Raymond James & Associates makes a market in shares of FB.*

*Snap Inc. - Raymond James & Associates received securities-related compensation from SNAP within the past 12 months.*

*Prices shown are as of close March 23rd, 2018.*

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