

# The Market in Review

Paul Siluch, Lisa Hill, Peter Mazzone, and Sharon Mitchell  
Financial Advisors  
Raymond James Ltd. – Victoria BC

November 29<sup>th</sup>, 2019

## This week's articles and insights

1. *The 2020 Election Cycle*
2. *Winning from the Middle in Chess*
3. *Wealth from Health*
4. *TFSA for 2020*

**“Strive in hard times, perish in contentment.”**

- **Traditional Chinese saying**

## Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	28,164	+ 1.43%	+ 20.73%
S&P 500	3,154	+ 1.61%	+ 25.80% (+22.44% in \$CDN)
TSX	17,115	+ 0.68%	+ 19.49%

## The 2020 Election Cycle

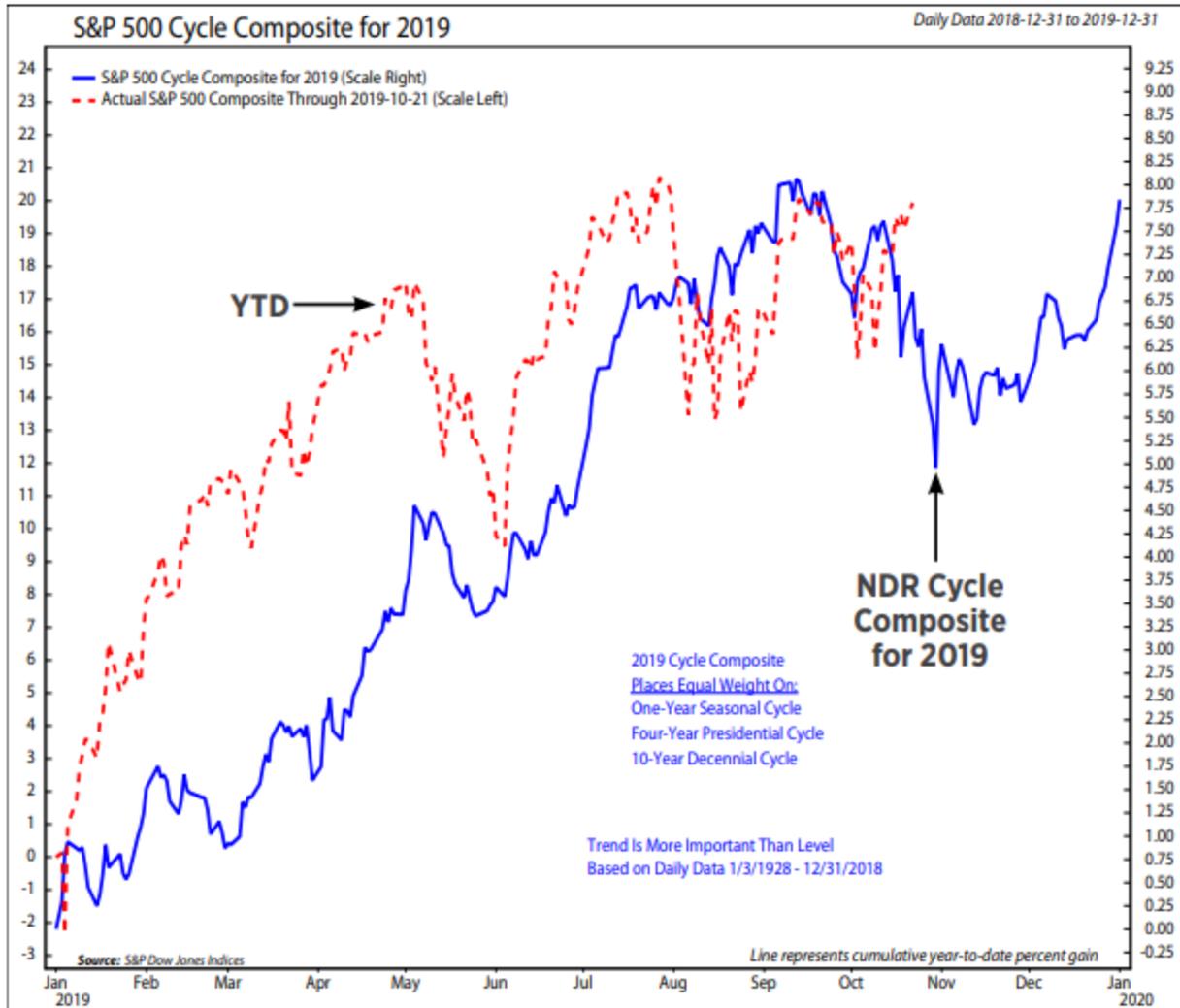
As much as we try to separate politics from investing, it is difficult. Politics and money, governments and economies, are co-joined twins everywhere you look around the world.

In Canada, the election cycle is less of an influence, perhaps because the distance between the main parties is so narrow. In the U.S., the election cycle affects the stock market much more definitively. Or, does the stock market affect the election? Perhaps both.

Much depends on who wins the election next year. Shown below is the typical 3<sup>rd</sup> year of the US election cycle. It shows the current 2019 year superimposed on 90 years of Dow Industrial Average prices for the 3<sup>rd</sup> year of a Presidential term.

So far, the year is playing out close to the long-term average. This year is typically the strongest of all 4 years of the election cycle.

## Stock market has tracked Cycle Composite in 2019

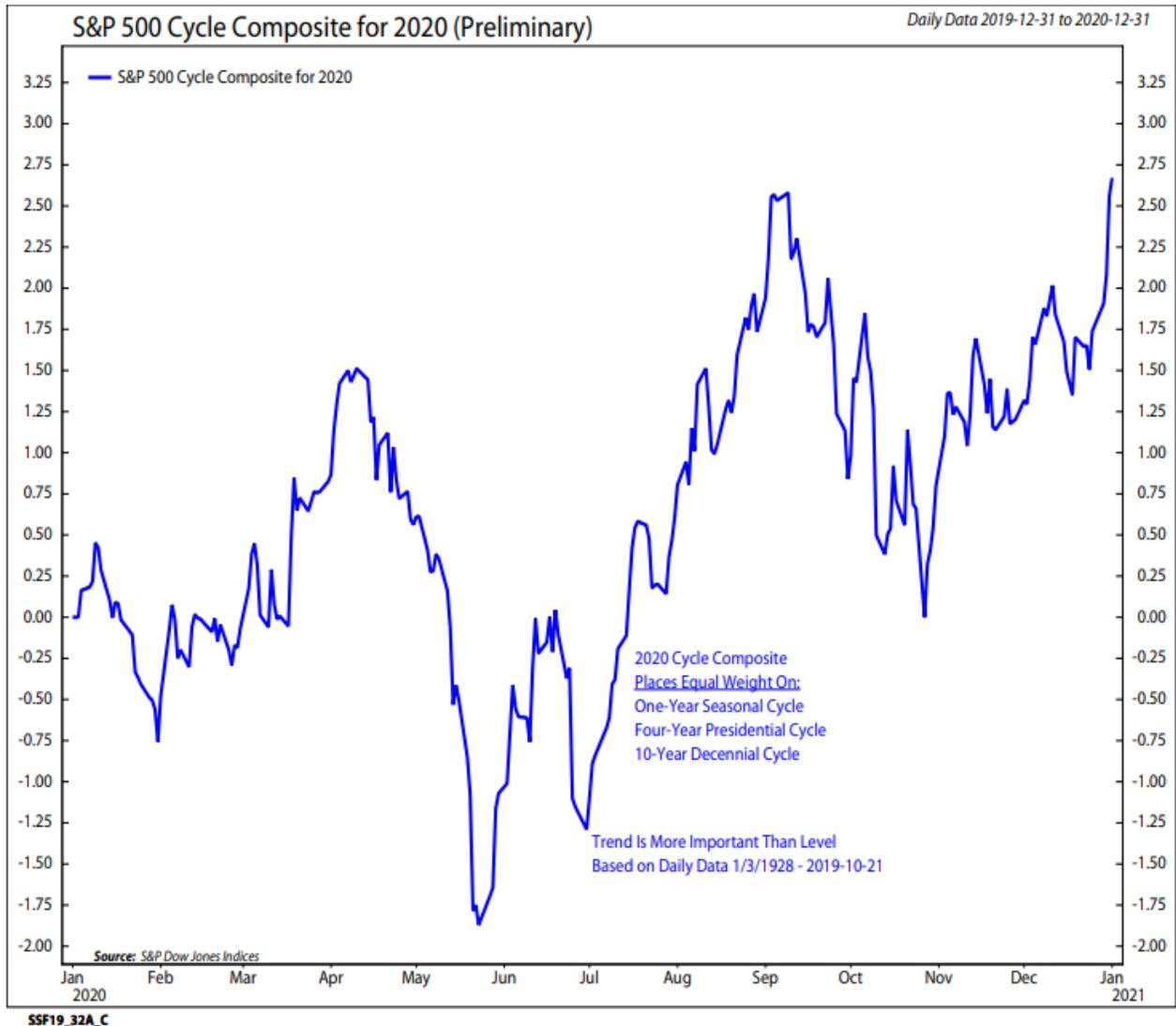


501666

Copyright 2019 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html). For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/).

The 4<sup>th</sup> year of the cycle, which will be 2020, is the election year. See how uncertain the market is until the mid-year?

## 2020 Cycle Composite choppy in first half



Copyright 2019 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html). For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/).

Ned Davis explains it as follows:

*“When the market has identified the likely presidential winner, the uncertainty has been lifted.”*

This happens, on average, by May-June. The market then tends to rise through year-end, regardless of the political party about to win. The market simply wants certainty.

Of course, the electorate can pull a huge surprise, as it did with the election of Donald Trump in 2016. Markets had risen all year with polls showing a Democratic win, only to momentarily plummet after the results.

Is President Trump going to win or lose next year? One-term presidents since 1928 have generally had poor 3<sup>rd</sup> year stock market performance, so this year's 25% S&P 500 returns (this is the 3<sup>rd</sup> year of this cycle) suggests the probability of a second Trump term could be higher than many think.

Which leads to a brief story about chess, strategy, and what the Democratic Party has to do to avoid losing again.

## **Winning from the Middle in Chess**

My friend Dr. John Oleson is an archaeologist at the University of Victoria. In 1991, John was excavating in Jordan at a site called Humayma, which was a trading post along the Via Nova Traiana - a Roman road and trade route linking ancient Persia to the new Roman empire of Byzantium. He unearthed a small square object that matched the rook chess piece found in later Muslim chess sets. The Muslims discovered chess from the Persians, who got it from India. It is approximately 1,500 years old and could be the world's oldest chess piece.

Early rooks first looked like chariots, with the two horns portraying horses.



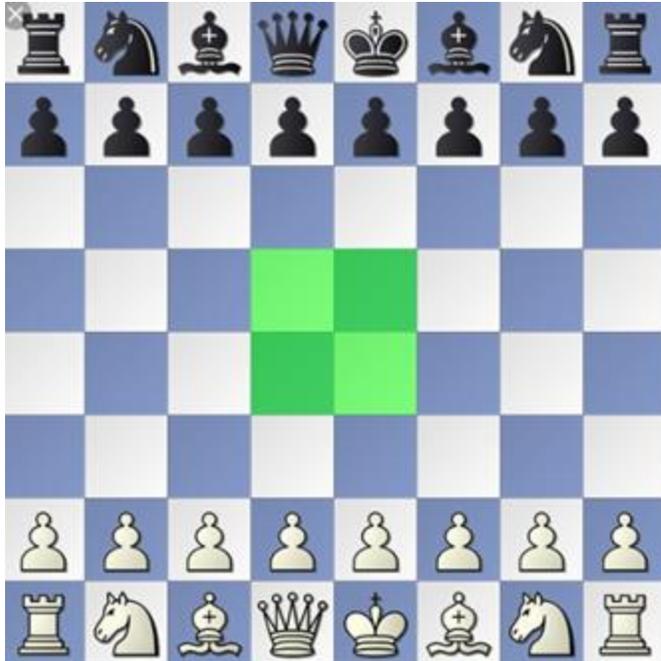
Credit: John Peter Oleson, used with permission

As the Arabic empire spread, it carried the game all the way into Europe when the Moors invaded Spain. It has gone on to become the world's most popular game.

On a sociological level, chess has mirrored the culture of the era. For example, the early Persian chess pieces resembled people and animals. The Muslim faith does not like to depict people, so the shapes were changed to geometric ones. Piece names also evolved – especially the role of the Queen. Originally the Queen was not a woman at all but the Vizier - an advisor who stood to the King's side. Its moves were limited to single spaces diagonally. In Europe, with the coincidental rise of women's influence at court, the piece became the Queen and her power expanded dramatically. She became able to traverse the entire board in a single move and speeded up the game dramatically.

It was even known as Mad Queen chess for a time because of the chaotic power of the newly-empowered piece.

On a strategic level, chess has also evolved. In the beginning, it was all about capturing as many enemy pieces as quickly as possible. But as players studied and advanced, they realized their chances of winning increased if they controlled the centre of the chessboard. The centre allows you to command the edges and project power far more easily.



Today's market does resemble Mad Queen chess in that events move very fast and with great complexity. Chess strategy may help explain the recent rise in stock prices.

The Democratic Party in the US has drifted much further to the left since President Obama left office. Its ideas are very noble but often involve the obliteration of entire industries:

- Medicare for all.
- Free tuition.
- Guaranteed income for life.
- Taxes on capital in addition to taxes on income.

The markets, being capitalist in nature, have become increasingly terrified of the idea of a Democratic president leaning so far to the left. This led to stocks sliding in August.

In politics, as in chess, you must control the centre to win. Right wing warmongers and left wing socialists don't appeal to the vast majority of North Americans, and the Democratic Party may be figuring that out.

In the last month, we have seen one left-leaning candidate (Elizabeth Warren) slide her Medicare For All plan into the 3<sup>rd</sup> year of her proposed term instead of

the first. And, we now have a billionaire (Michael Bloomberg) in the running whose policies are far more centrist.

As a result, health care companies, banks, and technology companies have rallied as the potential for a more centrist opponent emerges. In other words, a Democratic president may be less scary than first thought.

The end result may be a much more equal political battle – and an uncertain market - from here into the middle of 2020 until the eventual winner is sorted out.

## Wealth from Health

One sector we are keeping a close eye on is the health care sector. There are two reasons.

1. The potential moderation of the Democratic stance on health care in the US (see above). Political fears have kept people out of health care stocks because of the fear of socialized medicine. The US Health Care index has been flat for almost 18 months now.
2. It is now an inexpensive sector growing earnings faster than the general market.

There are 11 industry sectors that make up the broad S&P 500 index. Of these, 9 have seen their prices rise faster than their earnings. In other words, the stocks in these industries are now more expensive (compared to their earnings) than they were in January.

Not great value, in other words.

However, 2 of the sectors have seen their earnings grow faster than their share prices, making them relatively cheaper than they were in January.

The sector with the fastest growth and lowest stock prices is the financials. The US banks are growing their earnings, raising their dividends, and we love the group.

The second best is health care. As a group, earnings are up 18% while the underlying shares are up just 9%.

As Josh Brown of the *Reformed Broker* newsletter says in Fortune magazine:

*“Health care is the second cheapest sector in the market. But here’s what’s interesting. In this quarter, health care is, I think, the only sector that’s growing earnings year over year. So what a puzzle that is. It’s got to be politics keeping people out of these stocks.*

*To me this is the fattest pitch that exists right now: 74 million boomers in the United States, even more overseas. They will now spend the next 20 years trying to replace every body part they have and living their best life literally until the last day, and that’s admirable, and I’ll be there soon.”*

## **TFSA for 2020**

The Canadian government has announced that the 2020 limit for Tax-Free Savings account contributions will be \$6,000. This is the same as it was for 2019.

With this new \$6,000, the total contribution room available in 2020 for someone who has never contributed since the TFSA was introduced in 2009 is \$69,500.

TFSA annual dollar limits by year

For 2009, 2010, 2011 and 2012:	\$5,000
For 2013 and 2014:	\$5,500
For 2015:	\$10,000
For 2016, 2017, and 2018:	\$5,500
For 2019 and 2020:	\$6,000

For those with older teenagers, anyone aged 18 is eligible for a TFSA. However, British Columbia residents cannot open a TFSA until the age of 19 (the age of majority here), although they will still be able to contribute for their 18<sup>th</sup> year.

In our opinion, the TFSA is the single best place to save and invest. Everyone eligible should have one.

Happy U.S. Thanksgiving. Christmas is just a month away!

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

<http://www.dividendvaluepartners.com>

We thank you for your business and your referrals and we hope you find our site user friendly and informative. We welcome your comments.

#### **How to contact us:**

[paul.siluch@raymondjames.ca](mailto:paul.siluch@raymondjames.ca)

[lisa.hill@raymondjames.ca](mailto:lisa.hill@raymondjames.ca)

[peter.mazzoni@raymondjames.ca](mailto:peter.mazzoni@raymondjames.ca)

(250) 405-2417

#### *Disclaimers*

*The information contained in this newsletter was obtained from sources believed to be reliable, however, we cannot represent that it is accurate or complete. It is provided as a general source of information and should not be considered personal investment advice or solicitation to buy or sell securities. The views expressed are those of the authors, Paul Siluch and Lisa Hill, and not necessarily those of Raymond James Ltd. Commissions, trailing commissions, management fees and expenses all may be associated with mutual funds. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. This newsletter is intended for distribution only in those jurisdictions where Raymond James Ltd. is registered as a dealer in securities. Any distribution or dissemination of this newsletter in any other jurisdiction is strictly prohibited. This newsletter is not intended for nor should it be distributed to any person in the USA. Raymond James Ltd. is a member of the Canadian Investor Protection Fund.*

*Raymond James does not accept orders and/or instructions regarding your account by e-mail, voice mail, fax or any alternate method. Transactional details do not supersede normal trade confirmations or statements. E-mail sent through the Internet is not secure or confidential. We reserve the right to monitor all e-mail.*

*Any information provided in this e-mail has been prepared from sources believed to be reliable, but is not guaranteed by Raymond James and is not a complete summary or statement of all available data necessary for making an investment decision. Any information provided is for informational purposes only and does not constitute a recommendation. Raymond James and its employees may own options, rights or warrants to purchase any of the securities mentioned in e-mail. This e-mail is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited.*

*This email newsletter may provide links to other Internet sites for the convenience of users. Raymond James Ltd. is not responsible for the availability or content of these external sites, nor does Raymond James Ltd endorse, warrant*

or guarantee the products, services or information described or offered at these other Internet sites. Users cannot assume that the external sites will abide by the same Privacy Policy which Raymond James Ltd adheres to.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Mutual funds and other securities are not insured nor guaranteed, their values change frequently and past performance may not be repeated.

Prices shown as of November 28<sup>th</sup>, 2019

You are receiving this message because our records indicate that you have requested this information. If you no longer wish to receive research from Raymond James, please reply to this message with unsubscribe in the subject line and include your name and/or company name in the message. Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available at [www.rjcapitalmarkets.com/Disclosures/Index](http://www.rjcapitalmarkets.com/Disclosures/Index).

---

This email, and any files transmitted, is confidential and may contain privileged information. Any unauthorized dissemination or copying is strictly prohibited. If you have received this email in error, please delete it and notify the sender immediately. We may monitor and review the content of all email communications. Trade instructions by email or voicemail will not be accepted or acted upon. Please contact us directly by telephone to place trades. Unless otherwise stated, opinions expressed in this email are those of the author and are not endorsed by Raymond James. Raymond James accepts no liability for any errors, omissions, loss or damage arising from the content, transmission or receipt of this email. Raymond James Ltd. is a member of the Canadian Investor Protection Fund.

Le présent courriel, de même que tout fichier transmis en pièce jointe, est de nature confidentielle et peut contenir des renseignements privilégiés. Toute diffusion ou reproduction en est strictement interdite. Si vous avez reçu ce courriel par erreur, veuillez le supprimer et en informer immédiatement l'expéditeur. Nous pouvons surveiller et examiner le contenu de toutes les communications électroniques. Les instructions portant sur des opérations, données par courriel ou dans une boîte vocale, ne seront pas acceptées ni exécutées. Veuillez communiquer avec nous directement par téléphone pour donner des ordres en bourse. Sauf indication contraire, les avis exprimés dans le présent courriel sont ceux de l'auteur et ne sont pas avalisés par Raymond James. Raymond James décline toute responsabilité en cas d'erreurs, d'omissions, de pertes ou de dommages découlant du contenu, de la transmission ou de la réception du présent courriel. Raymond James Ltd. est membre du Fonds canadien de protection des épargnants.

---

To unsubscribe and no longer receive any email communications from this sender, including information about your account, please either click [here](#) or send a reply email to the sender with [UNSUBSCRIBE] in the subject line.

Pour vous désabonner de cet expéditeur soit cliquer [ici](#) ou envoyer un e-mail de réponse à l'expéditeur avec [UNSUBSCRIBE] dans la ligne d'objet.