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Stormy Weather, Stormy Market

There are advantages and disadvantages to writing a blog the day before it is published. One of the disadvantages occurs when one refers to potential future events on that day, which may prove to be inaccurate. Then again, if one refers to the potential event, and it occurs, it can be fruitful and useful, even in hindsight.

For example, as I write this blog, I look ahead to what the maniacal weathermen and television anchors have dubbed "Frankenstorm", which is due to hit the Mid-Atlantic area Monday morning. The storm could end up being nothing or could be a major disaster. Surely you, the reader, will know what is happening, as you read this on Monday morning.

What is noteworthy about the storm at this juncture is not just how it will affect the targeted areas, but how it could impact the economy, the stock market, and potentially the Presidential election.

(cont'd)

Key Takeaways

- ⇒ Major storm could have far-reaching effect
- ⇒ Stocks to avoid
- ⇒ Poor revenue growth may not be cause for concern
- ⇒ Key comments from S&P investment strategist

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The Beginning….(cont'd)

The region has already been impacted on a few occasions in the past 3 years from blizzards, tropical depressions, and derechos, which have knocked out power to millions for several days at a time. So let's look at the financial impact for a moment. Obviously, storm damage is a negative to insurers and many property and casualty insurers were in the red on Friday. If the storm packs a wallop, we will see these stocks get hammered in the early – middle part of the week.

New construction could be damaged along with existing homes, prompting an increase in the purchase of lumber, appliances, drywall, etc. Given the sheer number of people that live in the region (66M on the east coast), and the strength, the damage could be in the tens of billions of dollars. The usual panic to buy generators, flashlights, batteries, food, water, etc. could be a mini-boon to supermarkets in the region, along with the Home Depot's (NYSE – HD) and Lowe's (NYSE – LOW) of the world.

A loss of power among a large swath of the region could result in lower volumes in the market as well as some of the industry's largest institutional investors, traders, and brokers, and their firms could be closed without power since they are largely based in this region. Some4 are sending key execs into Manhattan that live nearby the workplace. The NYSE is actually "closed" but will trade electronically. The entire NYC mass transit system will not be running and some mandatory evacuations have already occurred.

Although (largely disappointing) earnings results and economic reports have dominated the stock market action of late, some investors like to play the market based upon Presidential election bets and hedges. Both candidates would have to spend time in the region rather than campaigning in swing states, so as not to appear apathetic to the cause and plight of those affected by the storm. Trivial as it may sound, less campaigning in the swing states could help shape election results in those states.

Reduced sales of Halloween candy, costumes, cards, and a decline in the number and scope of parties could be in the cards as well. If you don't have power, you probably aren't even thinking about Halloween.

Of course that could mean big discounts late next week.

Meanwhile, let us hope everyone is safe and damage from the storm is minimal.

Key Statistics

Index	Close	YTD
DJIA	13107	7.3%
S&P 500	1412	12.2%
NASDAQ	2988	14.7%
Russell 2K	813	9.6%

(figures are rounded)

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Looking Ahead...

There is a lot of truth to the negative comments regarding last week's Q3 financial results which are disturbingly demonstrating slowing and even declining revenue growth. These declines have economists concerned that the anemic recovery is tired and on its last legs.

Perhaps it is naiveté on our part, but we believe that some businesses have intentionally not put the pedal to the metal, in anticipation of the election and prospective budget and tax changes that would mute or eliminate the fiscal cliff we are facing come 2013.

Looking at the still large cash levels, continued job cuts, and anemic growth seems to echo these ideas.

Still, the market's key indices are down 4.5% - 6.5% from their year highs and the market is already factoring in slower growth and earnings ahead. Thus, we still are bullish, at least in the near term, and would be even more so, in the event of a Romney victory.

All in all, Sandy the hurricane/tropical storm/tropical depression and the outcome of the elections will make things interesting for much of America, directly, and indirectly. Once the storm and election are behind us, investors will get back to brass tacks. As I have been reminded from Sam Stovall of S&P (via an email from the American Association of Individual Investors (AAII), good things are to come in the market, which we have been preaching as well.

After all, according to Stovall:

"The "best six months" for stocks start a week from today (Oct 25). Since the end of World War II, the S&P 500 has historically realized an average return of about 7% between November 1 and April 30. Conversely, during the "worst six months," the S&P has only gained 1.2% between May 1 and October 31."

Until next week...

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