

INSIDE THIS ISSUE:

How Election Results Affect Us

KEY TAKEAWAYS

- ⇒ *Republicans beat the Democrats like the Globetrotters beat the Generals on national and localized levels*
- ⇒ *The Street is cheering and so should you.*
- ⇒ *History tells us the balance of the year and next year could be big return years*
- ⇒ *Pot stocks get a shot in the arm*
- ⇒ *Defense, health care, tech, and financials should get a real boost*
- ⇒ *Look for stocks to run for the next four months*

KEY STATISTICS

<u>Index</u>	<u>Close</u>	<u>2014</u>
DJIA	17384	4.9%
S&P 500	2012	8.9%
NASDAQ	4624	10.7%
Russell 2000	1165	0.0%

(figures are rounded)

CHANGE AGAIN, SIX YEARS LATER

Midterm elections are in the books and Americans overwhelmingly voted for change, much like they did six years ago when they voted in Barack Obama as President. This time around, however, disdain for our leader, who was called King Putt for his penchant for living on the golf course, was felt on a national and localized level. Not only do the Republicans control the House and the Senate, but so many blue states turned red in state and local elections (such as my home state of Maryland) that some are calling this event a referendum on ideology and the strong disagreement with the direction in which the country is headed.

While that may be true to a degree, we will leave it to the pundits to define this dramatic shift. Instead, we will define it from the investment perspective since it will have a clear impact on stocks, going forward. Here are the top 5 things you need to know about how stocks will perform:

1. **Wall Street is happy.** Wall Street leaders spent a lot of money on this election—mainly supporting Republican causes and races. A reduction in regulations, lower taxes, less onerous financial oversight, and related issues were just too much to bear.
2. **The Next 12-18 Months Could Be Big for Stocks.** According to the Stock Trader’s Almanac, stocks make big moves to the upside after midterm elections and in the fifth year of decades, stocks tend to overwhelmingly enjoy their greatest performance with few down years.
3. **The Marijuana Lobby is Smoking.** Oregon, Washington DC and Alaska join Colorado and Washington as the next states to legalize pot on a recreational basis while a similar bill was defeated in Florida. These 3 states were no surprise and the Florida loss is a tough one and illustrates this segment has major legs but has to be played tactically.

How Will The Market React?

4. Don't Expect Compromises. This is not the Clinton Presidency. We do not expect much to change policy-wise over the next two years as gridlock will likely rule the day, which is not necessarily a good thing. Executive orders and backlash will be the norm, again, from both sides. That could mean real and consistent volatility returns.

5. Buy These Sectors. Defense, health care, financials, and tech. ETFs are a great way to play these segments. Once oil stabilizes in 2015, that will be a good sector in which to invest as well.

Since the summer, we have had two major contractions, which we thought would lead to corrections only to set the table for a big post-election, year-end run. The smart money must have sensed this election event early since stocks roared back from the mid-October lows.

Admittedly, the Halloween Indicator came two weeks early than we thought but its effect going forward is clear. With few exceptions, it is as if the market has collectively taken one gigantic Viagra or Cialis— meaning stocks will be generally vertical for an extended period of time. Of course if the market remains this way for more than four months, see your financial advisor or take some money off the table.



The Goldman Guide

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