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The market hates uncertainty.

And this year we have had more than our share. For instance:

Interest Rates: Will the Fed raise rates? If so when? It appears that December is the time.

Will the dollar strengthen? It seems to be. What does that mean for business and consumers?

Who will win the election? Which candidate will be good for the market? Which candidate will provide stability?

What happens to the price of oil?

What about the conflict in the Middle East?

Terrorist attacks?

And so on.

All of these problems and more have confronted the markets this year. Early in the year, the markets swooned after a December quarter point increase in interest rates by the Federal Reserve. While a quarter point did not seem to be a big deal, it was a big deal. The economy was weak globally as well as in the U.S. The Fed was eager to raise rates before the next downturn. They talked about raising rates so much that they backed themselves into a corner. They had to raise rates or risk credibility loss. The market knew it was coming, but still dropped into correction territory. It was the worst start ever to a new year. Chastened, the Fed took a rate rise off the table for the rest of the year. Now, Fed board members are again talking rate increase and pretty much have put their credibility on the line again. They will have to produce. The bond futures markets are predicting a 65% chance of a rate increase in December. But December is a long way off, and there is an election in the meantime.

The presidential election has provided ample opportunity for uncertainty. Donald Trump, an unconventional candidate, to say the least, has provided fireworks and surprises. His experience in business and as a television host ill prepared him for the vicissitudes of big time politics. He had difficulty staying on message, and his frequent variations on his theme caused him difficulty and roiled the election process. But through it all, his supporters stuck with him, and he confounded the experts with his campaign. He drew lots of attention. The attention garnered him television ratings and made him a hot ticket for content starved networks, especially Fox News. The networks covered his every utterance in great detail. In the primaries alone, he received more than two billion dollars in free media time; ten times his nearest opponent. With this amount of free media, he vanquished all of his opponents, emerging as the winner of the Republican primary. But this victory overlooks one essential element of elections: the person with the most votes wins. The Republicans start any presidential election with a big handicap: there are more Democrat voters. In order for a Republican to win, they must expand their base. Trump eschewed conventional wisdom. Uncertainty. Finally when the votes are all in we may have predictably, but maybe not, as Trump threatens to contest the election if he does not win. If he does win, no one, not even Trump, really knows what he will do.

Economists think that the uncertainly surrounding this most unusual of presidential elections has slowed consumer and capital spending, which are essential to the economy. Perhaps when the election is over we will see an uptick in spending. That could lead to more profits, and profits to a stronger market. Some think the profit recession is over.

With the market now into its eighth year of (anemic) recovery can we expect that profits will finally bring more growth and more growth more profits, or will uncertainty lead to further malaise and an end of the recovery? Age is not what kills a bull market. Overheating, the Fed or accidents are usually the culprits. We have emerging bubbles in our economy, but with tepid growth it is hard to see overheating. Perhaps the European banks could be the accident in the making.

If the Fed raises rates, as they probably will, the dollar will strengthen (indeed already has) and that will be a head wind for U.S. exporters, but a gift to American consumers. Since oil is priced in dollars, we can expect cheaper oil too. On balance we can live with a stronger dollar.

After the election we can expect more uncertainty, not just from the candidates, but from Putin and his ilk. If Clinton wins, Putin will test her somewhere. Don't forget that the 9/11 plotters used the transition between Clinton and Bush to take advantage of confusion in our defense network. If Trump wins, expect Putin to try to drive a wedge between the U.S. and its allies.

While there is plenty to worry about, don't count the market out just yet. Remember that the market climbs a wall of worry. Worry is different from uncertainly. As economist Frank Knight made clear almost a century ago, risk is defined as a set of measurable, knowable outcomes whereas uncertainty is generally unknowable and immeasurable. Worry is good because it prevents "irrational exuberance". We are fully invested in a diversified portfolio.

Call if you have any questions.

Best,

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