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Greetings,

The economy is showing improvement. Technically, the recession is most likely over. It doesn't feel like it. The unemployment rate is 8.4% which is at recession levels, but well off the 12% number where it was just six months ago. The problem is that while most consumers are doing ok, there are so many sectors within the economy that are really hurting. The travel, leisure, entertainment, restaurant and energy sectors are all doing poorly. They most likely won't come back until well into next year. For those who think that the economy will come roaring back earlier next year, it is difficult to make a case for that with all of those parts of the economy hurting. I personally don't think that travel and leisure will come back until the second half of next year, at the earliest. Business travel could take several years to come back. In some ways, I see this economy as being similar to a speed boat going full throttle with its anchor in the water. The Federal Reserve is pumping all this stimulus into the financial markets to help as much as it can. The government is also looking to add more stimulus into the system (in addition to what has already been done), but of course Congress can't agree on how much to spend or how to spend it. Chances are after the election they will figure something out. The economy will continue to improve. It will most likely happen at a slower pace than many people would like.

The stock market continues to be driven by liquidity. The Federal Reserve has now abandoned the "Phillips Curve" and I say "thank goodness". It was a long time coming. The Phillips Curve is an antiquated model that the Fed used for their interest rate policy decisions. It was applicable prior to the year 2000 and arguably prior to 1995. The Phillips Curve said that economic growth and a tight labor market led to inflation. In today's economy, it has proven not to be the case. Several months ago, the Fed indicated that it won't be raising short term rates for at least another 2 years. At their last meeting, they one upped themselves by stating they will leave rates where they are for 3 more years. Part of me prefers that they don't box themselves into a corner like this in case they are mistaken and have to raise rates earlier than expected. They are indicating that they will do whatever is necessary to keep the economic recovery going, even letting the economy run hot for a while. I find that a good thing since the Fed in the past has raised interest rates pre maturely because of inflation fears, when in fact it was under control and not a threat. Since inflation has been non-existent for so long, they are willing to have some inflation above their stated 2% long term goal for a little while. In a nutshell, they are taking a better "safe than sorry" approach by keeping rates low to avoid a slowing down in the economic recovery. This is truly unprecedented and will certainly be beneficial to the stock market.

I will touch briefly on the elections effect on the stock market, or should I saw its lack of effect. As long as your time frame is longer than 2-3 months, its effect will be minimal. Mike Santoli is a former columnist for Barons and currently a senior CNBC contributor. He did a report just 2 weeks ago, showing that over a 40 year period, that election results had little or no effect on the stock market. A picture is worth a thousand words. Paul Krugman is a liberal columnist for the NY Times and used to be an occasional guest on CNBC. Prior to the last election he boldly predicted that the stock market would crash and burn under a Trump presidency. He was correct for several hours as the DJIA futures were down 800 points immediately after he was declared the winner. The market reversed to a 1000 point gain by the close of the first trading day after Trump was elected. The market has done well under the Trump administration. The conservatives were just as scared, if not more, with the prospects of Barack Obama winning 12 years ago. The market did very well under the Obama administration. I give Janet Yelen (the head of the Federal Reserve prior to Jay Powell) more credit than Obama but the market did well nonetheless. I acknowledge that if the election is contested, it could take a big hit for a couple of months. If the results are not contested, I see a relief rally, no matter who wins. My time frame is to look at least 3-5 years out, not to figure out what the market will do over 2 months. Regardless of the election result, I am extremely confident that the value of our holdings will be higher than they are now in 3 years. Most likely, considerably higher.

If you have any questions or anything that you would like to discuss, please contact me.