Eidelman Virant
CAPITAL

11th of October, 2016

Dear Clients and Friends,

The S&P 500 rose 3.9% in the third quarter and 7.9% year-to-date through September. Supporting the rise was the Federal Reserve holding interest rates at very low levels and clarity regarding the presidential election as Hilary Clinton took a larger lead in the polls with only a month until Election Day. A common question we are hearing is: "Should I wait to invest until after the election?" We don't think so. In fact, the market may rally following the election as uncertainty abates.

Personal politics aside, it is commonly believed a Trump victory may cause temporary market disruptions as the market digests the implications of a new political party in the White House. A Clinton victory is viewed as a continuation of current policies and thus not likely to have a significant impact on market expectations. The odds of a Hillary Clinton victory have risen to 80% according to polling expert Nate Silver's forecasting models. In short, the odds favor a Clinton victory and a relief rally for the market.

Another concern for the markets is the potential for the Federal Reserve to start raising interest rates in December. In its most recent September press release, the Federal Reserve said the "The case for an increase in the federal funds rate has strengthened" and "The committee expects that economic conditions will evolve in a manner that will warrant only gradual increases" and "The federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the long run." In short, they will likely start raising rates soon, but at a modest pace. We think rising rates from infinitesimal levels (0.25%) to still low levels (2-3%) over the next few years are expected by the markets. With low global interest rates, stock valuations should remain high and provide a superior return over bonds.

We remain optimistic on the equity markets. While valuations remain above historical averages, strong market momentum, low interest rates, modest levels of insider buying and investor sentiment, and an improving economy should continue to be supportive of higher stock prices going forward. In order to achieve solid returns in a rising market environment and provide protection in the event of selloff, we will remain diligent in concentrating in investments with niche market positions, strong balance sheets, excellent management teams, and attractive valuations. We think such a portfolio best positions our clients for future success.

Sincerely,

Tom Eidelman, CFA
Managing Director