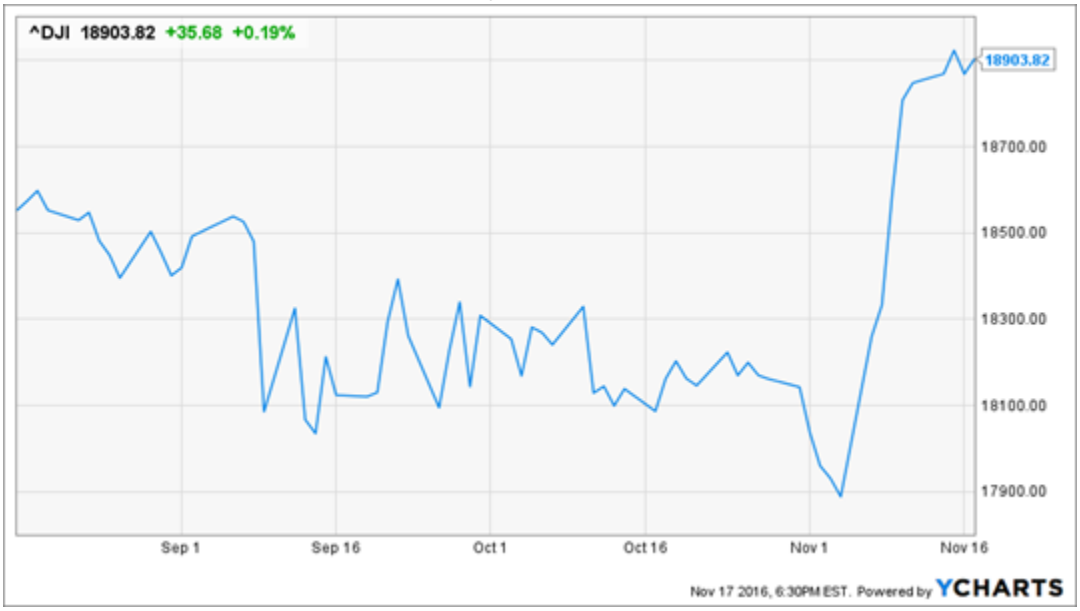
The Outlook: Nov. 17, 2016

The election, the market, humility . . . and making money.

Dow Jones Industrials, Before and After the Election



Just as almost everybody in the political world was wrong about the election itself, so almost everybody in the investment world was wrong about how the market would behave, if Mr. Trump won. The rocket ride we see above was one of those grand times when the market manages to confound everyone—and that's saying something, given the vast breadth and deafening volume of the crowd of market commentators telling us what to think every day.

It has always seemed to Outlook as if the only sensible reaction to such "triumphs of the unexpected"—which in fact happen all the time in the market, just not as publicly visible as this time—is, well, humility. It's also seemed to Outlook, looking for signs of such humility among that vast market crowd, over the years, as if "humility" is indeed one of the rare virtues it's supposed to be—together with the other homely ones, like courage, determination, patience, compassion and the rest. No matter how often the market makes its point about being humble, very few investment "experts" appear to absorb the lesson. It's a quick "Oops!" at best, and then off to the next cocksure prediction.

Finally arriving at the point, the "action step" we investors ought to take from our latest lesson in humility is simple: "Don't try to be clever." We'll get our heads handed to us, sooner or later, if we do.

Resisting the itch to be clever, of course, usually means keeping our eyes on the profound things that make money for us in the long run: strong companies, good leadership, decent valuations. Those things do not change fast. We can depend on them to pay off very well for us, if we also choose to exercise the old virtue of patience.

Dispensing with the rest of the sermon, there's no harm in asking ourselves, "Why did the market rocket up, and will it keep going?"

Outlook's guess is this. The market crowd, after its mandatory fit of terror (the Trump global trade war, the Trump attack on companies with foreign factories, etc.), found itself unable to ignore the possibility of a few profound positives: mainly, sharply lower taxation and regulation, and sharply higher U.S. infrastructure spending. The growth-boosting benefits of slashed taxation and regulation, especially, are so powerful and so obvious throughout economic history that even a market crowd whose majority seems to stand against such free-market, capitalist notions, found itself troubled at the thought of betting against those notions with their own money, rather than just speaking and writing against them. A long time ago, an old investment manager told his young, newly-hired assistant, "Do not pay much attention to what people are saying. Watch what they're actually doing, with their own money." (Naturally the young analyst said, "Oh, of course!" while understanding nothing . . . but that's how it usually goes when the old give advice to the young.)

"Will it keep going?" Of course not. The market goes too far in one direction, then too far in the other, then repeats. But what matters hasn't changed a bit: we own very strong companies, run by generally outstanding leaders, and they are still among the market's best values, even after some startling run-ups in price this year, and since Election Day. They'll do quite well for us in the several years ahead . . . and we have distinctly more grounds to hope for those lower-tax-and-regulation growth-boosters than we did before.

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