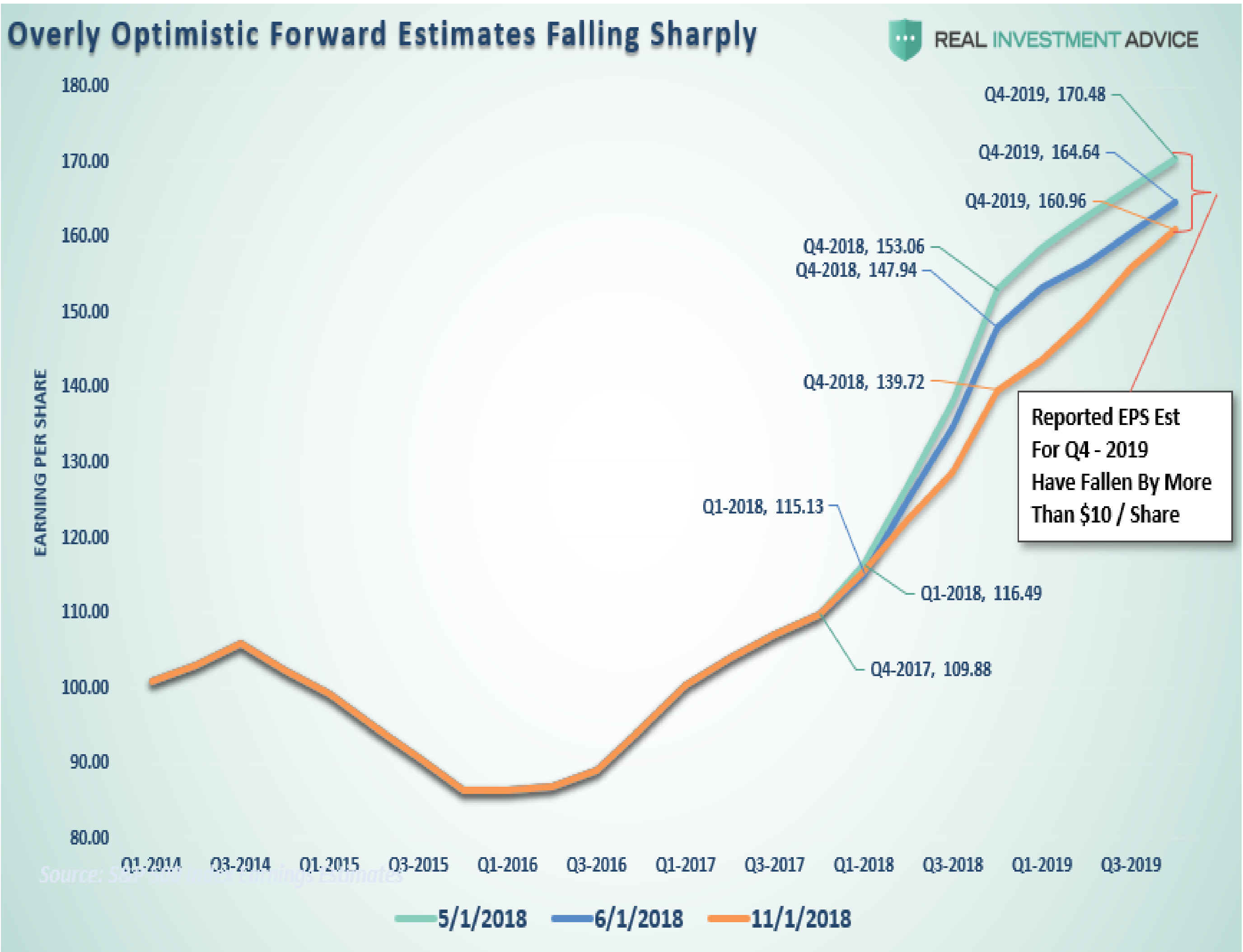
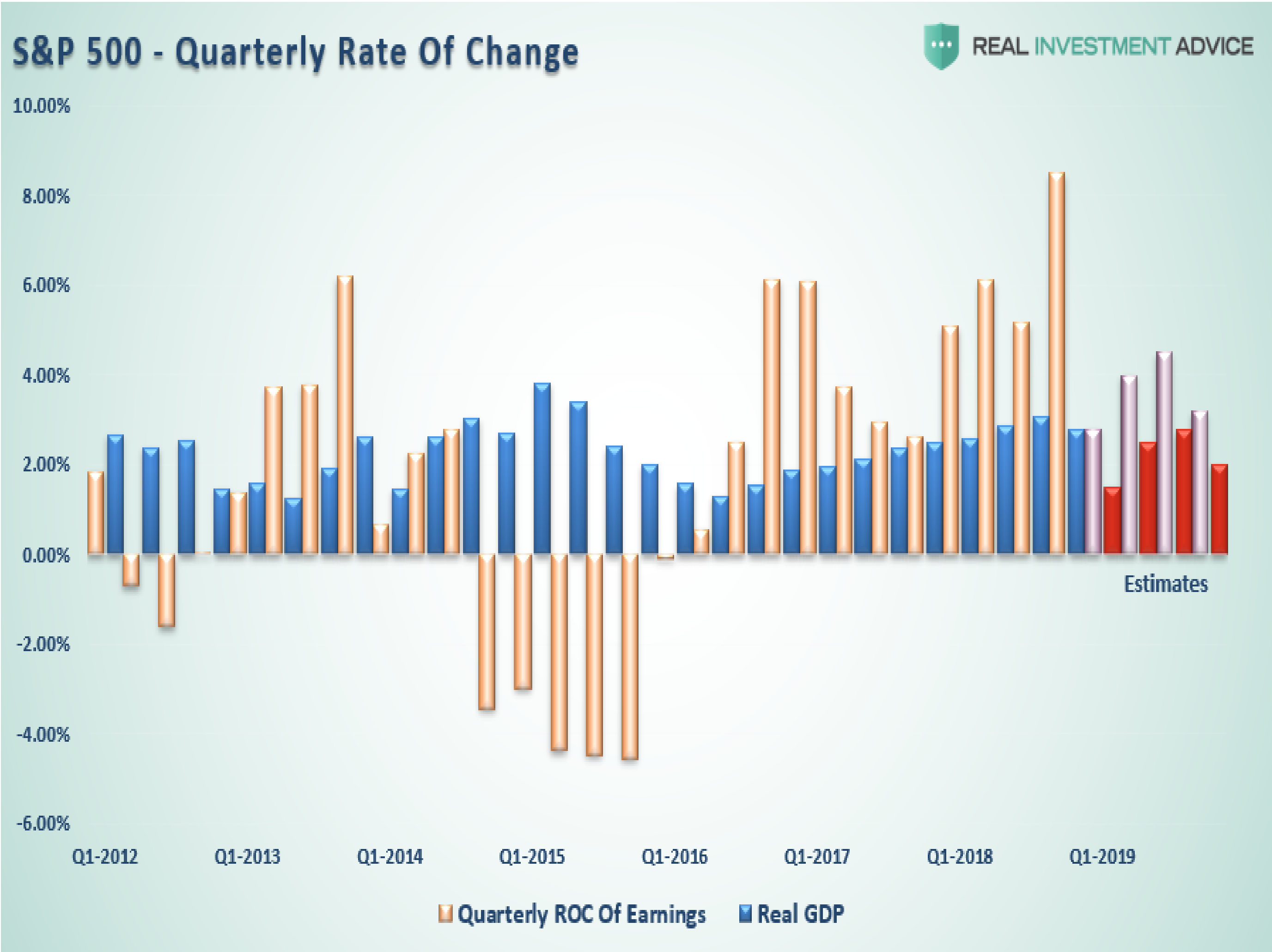
With some bit of relief, I am glad to see the mid-term elections now behind us as another cloud of uncertainty is removed. However, in reality, I suspect the outcome of the elections will have much less impact on the markets than most currently think. Barbara Kollmeyer penned a note earlier this week for MarketWatch:

> *"For financial markets, one takeaway mattered above all others in the midterm election?no curveballs. And that?s basically what was delivered as pundits who got it so wrong in 2016, correctly forecast the end of one-party rule this time. With Dems calling the shots in the House, we could see no end to investigations, subpoenas and possibly impeachment talk and a hard push for POTUS to cough up those tax returns. All that may slow down President Donald Trump?s MAGA plans."*

While that is entirely true, I think the markets are going to quickly look past the now *"gridlocked"* Congress to the more important drivers of the market **- earnings and share buybacks.** As I noted in yesterday's missive on rising headwinds to the market, earnings expectations have already started to get markedly ratcheted down for the end of 2019.



More importantly, beginning in 2019, the quarterly rate of change in earnings will drop markedly and head back towards the expected rate of real economic growth. *(Note: these estimates are as of 11/1/18 from S&P and are still too high relative to expected future growth. Expect estimates to continue to decline which allow for continued high levels of estimate "beat" rates.)*



So, really, despite all of the excitement over the outcome of the mid-terms, such is really unlikely to mean much going forward. The bigger issue to focus on will be the ongoing impact of rising interest rates on major drivers of debt-driven consumption such as housing and auto sales. Combine that with a late stage economic cycle colliding with a Central Bank bent on removing accommodation and you have a potentially toxic brew for a much weaker outcome than currently expected. Of course, the one thing that a *"gridlocked"* Congress can likely agree on is *"more spending."*•While there will likely not be any funding approved for *"boarder walls,"* immigration reform, or further defense spending, they can probably reach an agreement for an *"infrastructure spending"* bill. The problem, as President Obama found out when he tried it, is that:

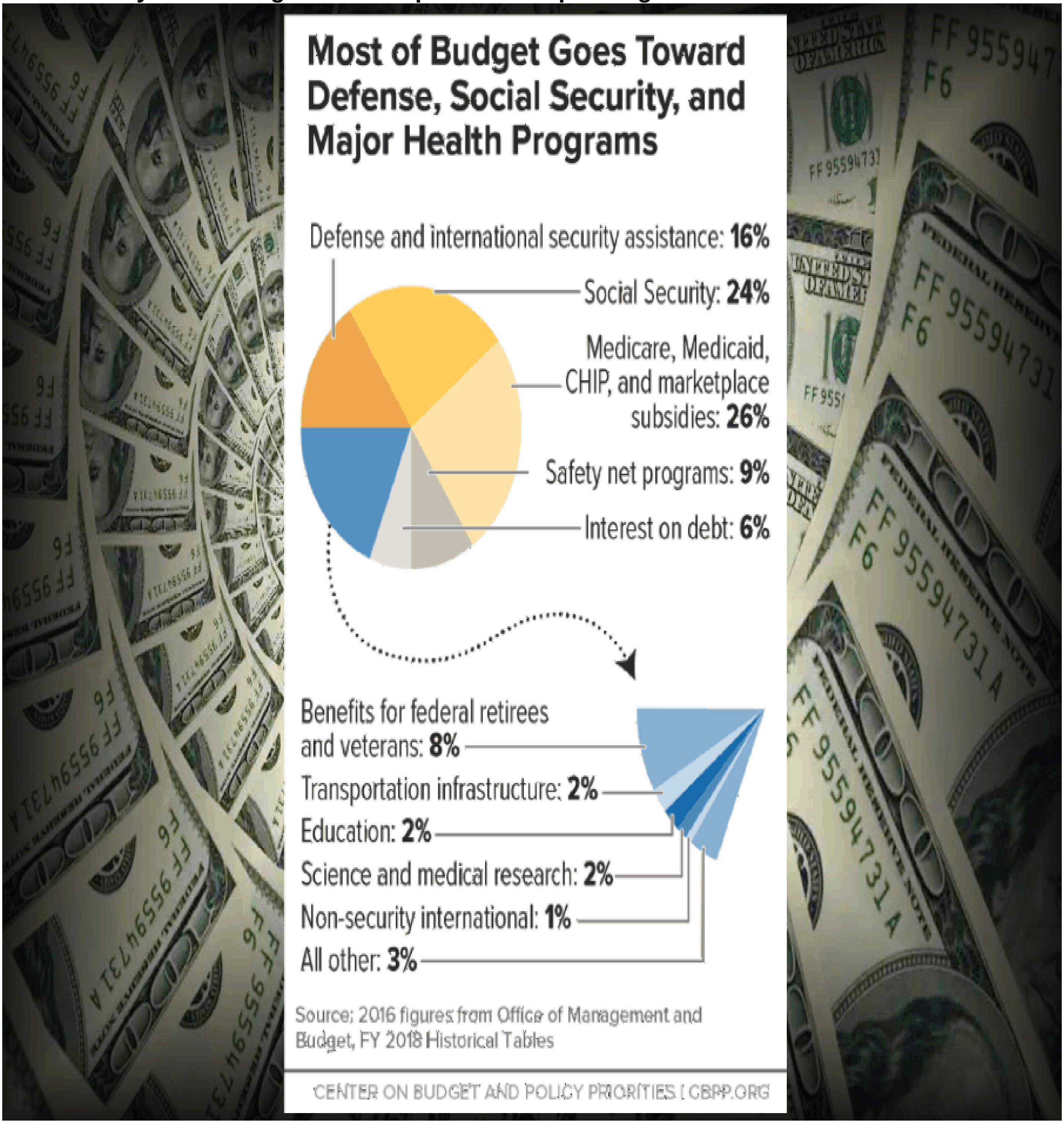
> *"Shovel ready jobs weren't all the shovel ready."*•

Furthermore, most of the things that will likely be funded are "pet projects" from Congressional members which have very low returns on investment. As Woody Brock wrote in his book *"American Gridlock:"*•

> ***"Country A***•*spends $4 Trillion with receipts of $3 Trillion. This leaves Country A with a $1 Trillion deficit. In order to make up the difference between the spending and the income, the Treasury must issue $1 Trillion in new debt. That new debt is used to cover the excess expenditures, but generates no income leaving a future hole that must be filled.* ***Country B***•*spends $4 Trillion and receives $3 Trillion income. However, the $1*

Trillion of excess, which was financed by debt, was invested into projects, infrastructure, that produced a positive rate of return. There is no deficit as the rate of return on the investment funds the 'deficit' over time."

There is no disagreement about the need for government spending. The disagreement is with the abuse, and waste, of it. Keynes? was correct in his theory. In order for government•?*deficit?* •spending to be effective, the?*payback?*•from investments being made through debt must yield a higher rate of return than the debt used to fund it. The problem, as noted by Dr. Brock, is that government spending has shifted away from productive investments, like the Hoover Dam, that create jobs•*(infrastructure and development)*•to primarily social welfare, defense and debt service which has a negative rate of return. •According to the•Center On Budget & Policy Priorities, **nearly 75% of every tax dollar goes to non-productive spending.•**



In other words, the U.S. is•?***Country A.?***•As Dr. Brock aptly stated in his speech:

?Today we are borrowing our children?s future with debt. We are witnessing the ?hosing? of the young.'?

So, yes, the markets may love a *"gridlocked Congress"*•as the restriction of*"Trumponomics"* will remove some of the daily angsts. However, longer-term, the trend of spending, deficits, and demographics will continue to weigh heavily on American prosperity. Just something to think about as you catch up on your weekend reading list.

Economy & Fed

- **Trump Will Probably Resist Common Grounds**by Caroline Baum via MarketWatch
- **Fed's Rosy Outlook Snubs History**by Danielle DiMartino-Booth via Bloomberg
- **Is Gridlock Good?**by William Watts via MarketWatch
- **The Global Economy Is Going Down For A 4th Time** by Jeffrey Snider via Alhambra Investments
- **Can Dems Reverse Trumponomics Now?**•by IBD
- **Rhetoric vs Reality: US-China Trade War**by Michael Wenderoth via Forbes
- **American Inequality Boiled Down To One Chart** by Shawn Langlois via MarketWatch
- **Economic Lessons From "Fiddler On The Roof"**by Matthew Rousu via Real Clear Markets
- **Why America Needs Another Baby Boom!**by Steven Mosher via New York Post
- **Socialism Kills...Literally**by Richard Rahn via Washington Times

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Markets

- **Kolanovic: Split Congress Best Outcome For Markets**by Tyler Durden via Zerohedge
- **Midterms Impact On Your Retirement**by Mark Hulbert via MarketWatch
- **This Has Never Happened Before**by Sven Henrich via Northman Trader
- **What Is The Real Effective Exchange Rate**by Simon Constable via Korn Ferry Institute
- **Did October Stop The Bull**by Dana Lyons via The Lyons Share
- **It's The Worst Year Since 1901** by Cecile Gutscher via Bloomberg
- **What Midterm Outcome May Mean For Stocks**by Mark DeCambre via MarketWatch
- **The Bull Market Is Dependent On Just A Few**•by Vident Financial
- **This Year Is Anything But Typical**by Jeff Sommer via NYT
- **Marks: Conditions Make This A Time Of Caution** by Christoph Gisiger via Finanz Und Wirtschaft
- **Even After The Correction, There Will Be More**by John Hussman via Hussman Funds

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Most Read On RIA

- **GE - Bringing Investment Mistakes To Life**by Lance Roberts
- **Blind Faith Isn't An Investment Strategy**by Michael Lebowitz
- **A Divided Nation We Stand**by Doug Kass
- **The Important Role Of Recessions**by Lance Roberts
- **4-Steps To Save Money**by Richard Rosso
- **The Tailwinds To The Bull Market Have Shifted**by Lance Roberts

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Exclusive Interview: Peter Boockvar

Exclusive Interview: Chris Martenson

Research•/ Interesting•Reads

- **What Happens To Buybacks In A Recession•** by Nick Colas via Zero Hedge
- **What Will The Next Financial Crisis Look Like•** by Daniel LaCalle via The Epoch Times
- **Are You One Of Those "End Of The World Guys?"•** by Jeff Thomas via International Man
- **Higher Ed Fading For Low Income Students•** By Patrick Hill via Progressive Ensign
- **Warren Buffett Issues Another Warning•** by Simon Black via Sovereignman.com
- **Everything You Know About The "G.R." Is Wrong•** by Steve Goldstein via MarketWatch
- **The Madame Bovary Effect•** by Ben Hunt via Epsilon Theory
- **The "Wall Street" Math Hustle•** by Richard Wiggins & Michael Edesess via Institutional Investor
- **Are You Overconfident In Your Financial Future•** by Peter Dunn via USA Today
- **The George Costanza Portfolio•** by Cliff Asness via AQR Capital Management
- **Millionaire Being Made By The Million Last Year•** by IBD
- **Not All Corrections Become Bear Markets•** by Sue Chang via MarketWatch

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> ***?Stupidity has a knack of getting its way."•*** *Albert Camus*

Questions, comments, suggestions ? please email me.