

October 1, 2020

I have been contemplating my thoughts for this fourth quarter letter since the first of the year. For the entire year, I have given much thought to my strategy and how I plan to position portfolios in front of the unknown results of what will transpire in just 33 more days on November 3rd.

Essentially, there are three possible outcomes. The two obvious are that candidate A or candidate B is declared the winner on the evening of November 3<sup>rd</sup>. If candidate A is the winner, it is possible that the Dow will rally several thousand points on the following day and prior to the end of the year. If candidate B wins, it is possible that the Dow will decline several thousand points the following day and prior to the end of the year.

The third scenario is that no candidate will be declared the winner and that several million mail in ballots will need to be counted. Or perhaps the postal service is unable to deliver all the ballots by election day. Also, each candidate could challenge the announced results and turn the election process over to a team of attorneys and the Supreme Court will need to intervene as it did in 2000, Gore vs. Bush. The Dow would likely decline a few thousand points under this scenario.

Since anything can happen on 11/3, and since it is impossible to predict with any great amount of certainty the outcome, I prefer not to guess at that outcome. It is also possible that the anticipated market moves could be opposite of those that would seem logical. Perhaps the market moves higher with a B win and lower with an A win. Think about it, who would have ever predicted that the market would be at this level on 10/1 after what happened with covid in February and March? And the day after the 2016 election, the initial move after Trump won was sharply lower, then by the end of the day it was substantially higher. My point is that it is just too difficult to forecast and the market often moves opposite of logic.

If the market gains a few thousand points because its preferred candidate is declared the winner, then we just carry on and start thinking about the 2022 midterms. But if the less desired candidate is declared the winner, or if no one is declared the winner, I will start deploying sideline cash into my favorite stocks. November and year end statements might not be so happy, but in my opinion, any decline will be short lived.

I believe that the American economy is bigger and more powerful than either of the two candidates. It may matter in the short term who wins the election, but I do not believe that it matters much in the long term. There is a lot of radical talk and opposition to capitalism, but Wall Street is a very powerful force that is not going to be easily destroyed.

Here is the bottom line: I have maintained all my positions in Apple, Amazon, Costco, Google, and Netflix and intend on selling no shares just because there is a possibility of an election related decline. I do have modest short positions on the Dow, S&P and Nasdaq as a small hedge, or insurance against a decline. (A short position makes money when the market declines) Plus, I have quite a bit of cash sitting in short term CDs and cash. So, if the "wrong" candidate wins, or if there is no declared winner, I will be taking profits on my short positions while also deploying cash into several of my favorite stocks.

If you have your own election strategy that you would like to discuss, or would like me to further clarify my game plan, please call or email and I'll do my best to understand your objectives in what is likely to be a very volatile period. Happy Halloween, indeed, these are scary times.

Sincerely,



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