

# Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



## Is the Economy Strong or Weak?

The stock market is a forward looking institution. That is to say investors and traders buy and sell based on their beliefs about what tomorrow will bring. However, the eventual price of any given stock always moves toward its intrinsic value, its value based on forward looking earnings. Looking forward the market has moved up with the election of Donald Trump because investors have expected to see tax cuts, infrastructure spending, repatriation of offshore corporate cash and a lot of deregulation. But not all sectors of the economy are doing well so the stock market advance is not spread out across all stocks. And when the Trump economic band wagon gets stuck in the mud of its own making the market drops back. No matter what the politics of the day the US economy is what drives stocks. Is the economy strong or weak? *The New York Times* notes that **stocks tumble** as chaos roils the White House.

*Stocks in the United States were down sharply in midday trading. The Dow Jones industrial average, the Nasdaq and the Standard & Poor's 500-stock index each were down more than one percent.*

Here are the reasons they cite for the drop in stock prices.

One) Trump firing an FBI director after asking to have an investigation dropped involving a Trump advisor and Trump sharing sensitive intelligence information in a chat with the Russian ambassador. How this affects stocks is that investors believe that the government will get bogged down these issues and the economic agenda they dreamed of will not be enacted.

Two) Economic weakness is more of an issue than the market would indicate. Most of the run up in stock prices has been from a few tech stocks while car makers and retailers are hurting.

The VIX options fear index is up 20% after resting at low levels. Investors are looking beyond the hype and seeing a weaker economy. Will this be the end of the bull market and if so how bad could it get?

### Trump Bump to Backlash

Remember that the market always looks ahead. Optimism has driven stocks up but pessimism could take things down in a hurry. *CNBC* looks at a possible **inverse Trump effect**.

*Major investors are “somewhat cautious” as they wait to see whether President Donald Trump and Republican leaders on Capitol Hill can deliver on promises of lower taxes and massive business deregulation, Starwood Capital Group founder Barry Sternlicht told CNBC on Monday.*

*Sternlicht described what he called the “inverse Trump effect” on the economy — the idea that uncertainty over the details of the president’s policies is holding back investors. “If I’m an individual and I know my capital gains tax is going to drop I might just wait to sell stuff,” and sell into a more favorable tax environment, he argued.*

*As a result, Sternlicht said there could be fewer real estate transactions “until this is cleared up.” Investors also could be waiting to sell stocks, he argued.*

*The U.S. economy is on a good trajectory, but investors want to know “the rules of engagement” before making big money decisions, said the chairman and CEO of Starwood Capital, which has \$52 billion in assets under management.*

As we have said time and time again, investors like to know the rules and have a plan. The longer chaos rules in the White House the longer business decisions, investments and the economy will be held in check. The down side is that if none of the economic hype comes to pass the correction could be significant.

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