



When Do Terror Attacks Demolish Your Investment Portfolio?

Terrorists hit London just weeks after an attack in Manchester and investors look to see which way the markets will go. At the beginning of this year we asked, “Does extraordinary uncertainty lead to extraordinary market risk.” At the time we were writing about Trump’s plans for economic stimulus and the associated voodoo economics of his proposals. Today we are looking at frequent terror attacks and their effects on markets. In short, when do terror attacks demolish your investment portfolio and when are your investments secure in the face of random acts of violence motivated by politics and religion? *Market Watch* notes that stocks look for direction in the wake of U.K. terror attacks.

U.S. stocks were little changed near record levels on Monday as investors grappled with a variety of geopolitical issues, both domestic and abroad.

This week will deliver testimony by fired Federal Bureau of Investigation Director James Comey, as well as the U.K. general election, and a European Central Bank meeting. Separately, the recent terror attack in the U.K. could amplify concerns, while a rift among Gulf states, which led to a rise in crude-oil prices, could further dictate investor sentiment.

[T]he fact that we’re not down more after an attack like this is a sign of strength. So long as these kinds of attacks are fairly contained, they won’t change the economic picture.

The issue regarding risk in the market with terrorism or other factors is the presence of growth stocks and leverage strategies. As bad as a terrorist attack is for those affected these events do not change how much Coca Cola we drink, how many Snickers bars we consume or how much laundry detergent we use. Our vacation destination may change from Paris to San Francisco but we will probably still take the family on a getaway. Stocks that typically go up when there are terror attacks or saber rattling across the globe are defense stocks. Stocks that may be hurt a little are airlines, hotels and restaurants in areas that people decide not to visit for the time being. A greater risk to the market now is the ongoing drama in the Trump administration and the investigation into contacts with Russian hackers during the election campaign. It is not likely that Trump will be forced out of the White House but it is likely that his ability to govern and influence the direction of the nation will be greatly reduced. This, more than terror attacks, is likely to hurt or damage your portfolio if you are too heavy into growth stocks or hedge funds that have prospered with the promise of economic miracles from Trump and the Republicans.

We commented on these pages some time back that having the same party in charge in the White House and both houses of congress is not always a recipe for success. Jimmy Carter called congress an Albatross around his neck when the Democrats in control congress rarely agreed with his policies. Growth and leverage are great in an increasing market but can become dangerous when things like terrorist attacks cause concern and a possible correction.

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