

ASPERA BULLETIN

Intelligent, Independent Investment Management

Obama Rally and Market Strategy

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Buy on the rumor, and sell on the news. The markets had a nice run-up of nearly 20% in the week prior to the election. This can't all be attributed to an expected Obama victory, but it was likely one of the factors.

Now, it's the morning after (well, the afternoon of the morning after the morning after), and it seems both Democrats and Republicans are selling shares once again. I'm guessing that Obama's supporters are selling some shares to replenish their cash after funding his campaign to the tune of \$600 million (an absolutely insane figure). Republicans are likely terrified of the Democratic victory and are selling some shares to stock up on ammo and to reserve their "Palin 2012" commemorative moosehide parkas.

To what degree did an expected Obama win help boost stock prices just prior to the election? Of course, we can't quantify it precisely, but it may be instructive to look at the following graph of TAN, a solar ETF. This basket of solar stocks rallied about 75% in the week leading up to election day.



Obama has made no secret of his support for alternative energy development. In an October 31st interview with Wolf Blitzer of CNN, Obama listed energy independence as his number 2 priority for 2009 (the economy was number one). In that interview, Obama said, "We have to seize this moment, because it's not just an energy independence issue; it's also a national security issue, and it's a jobs issue. We can create 5 million new green energy jobs." The strong move in the alternative energy stocks leading up to the election hints of an expected Obama victory being one of the factors for the rally.

So, again we've had a rally, and again we're giving it back. There are plenty of potential explanations. Could be acceptance that analyst earnings estimates still have to come down. Perhaps the reality that our economic and financial problems transcend any President or government action is setting in. Maybe we're seeing profit-taking from the rally or more forced de-leveraging. Perhaps the Plunge Protection Team had to take a breather to reload the ink in its printing press.

Whatever the case, we should expect the dramatic volatility in the market over the past month to continue in the near-term. Fortunately, this volatility has provided some good trading opportunities. As I've stated, my intention has been to fade any strong moves in this market, and that's what I've been doing. Both times last month that the S&P 500 approached 850, I turned short-term bullish and added some long market exposure while covering my shorts. And both times the S&P 500 approached 1000, I sold those positions. The most recent assault on 1000 occurred on election day, during which I fortuitously unloaded the QLD, SSO, and GOOG exposure that had been added during the prior dip.

I was hoping to rebuild my short exposure gradually during the latest market rally. Unfortunately, I was only able to add a few short positions (a couple of alternative energy names and one financial) before the rally fizzled.

As we stand now, I plan to continue fading strong moves in the market. I'll be looking to cover the current shorts and rebuild the long side should we head back to recent lows. If we turn around and start heading back up, I anticipate adding short exposure in the S&P 500 and the Russell 2000 as well as in the consumer, alternative energy, and financial spaces.

I'm also keeping an eye on the currencies. I sold our Yen exposure back on the 24th when it spiked, leaving us with exposure to only the Chinese Renminbi. I should have rolled the Yen exposure into the Canadian dollar at the time, but I missed it. The long-term fundamentals of the U.S. do not support its recent strength. The strong move in the dollar has been largely due to short-term technical reasons as well as a knee-jerk flight-to-safety. I am very negative on the dollar (long-term) at these levels and will likely be buying the Canadian dollar if it weakens much further.

Best,

Ken Bell, CFA, CFP
President
Aspera Financial, LLC

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