Believe at Your Own Risk

We are about to enter that exciting time of year when all sorts of market predictions are made by people who are mostly claiming that they knew the future and have accurately predicted it over a great track record. If you're smart, you'll turn off the TV or move on to the next article.

The truth is that none of us can accurately predict the movements of the markets. If we could, then we would always make trades ahead of market moves, and it wouldn't take long before that amazing prognosticator with the working crystal ball would have amassed billions off of his or her stock market trades. Have you read about anybody doing that lately?

Most of these people are employed at think tanks or sell their predictions to credulous investors. Would they need that salary check or your hard-earned subscription dollars if they had the ability to make billions just by checking the 'ol crystal ball a couple of times a day?

A recent article[1] by frequent blogger Barry Ritholtz offers some rather amazing data on people in the prediction business, like radio personality Peter Schiff telling listeners since 2010 that the price of gold has been riding toward $5,000 an ounce. (It's riding around $1,200 currently.). Jim Rickards, former general counsel at Long-Term Capital Management, is more ambitious, telling his followers that he has a $10,000 price target for an ounce of gold.

If you happen to follow former Reagan White House Budget Director David Stockman, you have been told that stocks are going to crash in 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019. Someday he's going to be right, and will no doubt be touting his amazing prediction abilities.

When you read about a prediction, instead of reaching for the phone to call your financial advisor, try writing the prediction down on a calendar or reminder program like the app followupthen.com, and come back to it a year later. Chances are you'll be less impressed then than you might be now.

What about a government shutdown?

You may have read or heard that one reason stocks have been going down lately is the threat of a government shutdown, which seems almost probable if the President's recent statements are to be taken at face value. The U.S. President is on record as embracing a government shutdown on Friday, December 21 unless he receives full funding for his border wall with Mexico. This seems unlikely, so it might be time to ask: If the government shuts down, what is actually likely to happen?

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An article on the ZeroHedge website[2] offers some news that might surprise most of us. First: government shutdowns have been more common than we might realize. In all, there have been 20 government shutdowns since October 1, 1976:

October 1-10, 1976	October 1-2, 1984
October 1-12, 1977	October 4, 1984
November 1-8, 1977	October 17, 1986
December 1-8, 1977	December 19, 1987
October 1-17, 1978	October 6-8, 1990
October 1-11, 1979	November 14-18, 1995
November 21-22, 1981	December 6, 1995 - January 5, 1996
October 1, 1982	October 1-16, 2013
December 18-20, 1982	January 20-22, 2018
November 11-13, 1983	February 9, 2018

The article notes a few things to remember. First, Congress can avoid a partial shutdown by passing another continuing resolution—following the continuing resolution in September that temporarily funded 7 out of 12 total appropriations into December. If the President were to veto that resolution, then a two-thirds majority in both the House and Senate could override the veto.

What about the other 5 of the 12 appropriations? Those—Energy & Water; the Legislative Branch; Military Construction and VA; the Department of Defense; and Labor, Health & Human Services—represent 75% of discretionary government spending—basically 75% of the money spent that is not related to Social Security, Medicare or other entitlement programs. Those programs are fully funded through September 30, 2019.

So what appropriations would the shutdown actually impact? The seven that still have to be authorized are Agriculture; Commerce, Justice and Science; Financial Services and General Government; Homeland Security; Interior and Environment; State and Foreign Operations; and Transportation and HUD.

What would be the economic impact of this potential partial shutdown? The report estimates that for every day of a full shutdown, American GDP is reduced by 2.4 basis points, or 0.024%. But since only 25% of the government would be inoperable, the impact in this case would be about 0.008% per day.

Put another way, each month would reduce American economic growth by about half a percent. That, of course, is unlikely to happen.

What have the markets done during past government shutdowns[3]? The data show that the average market move for the S&P 500 index, in the week of a government shutdown, is down 0.06%—which I think most of us would regard as virtually unchanged. The two weeks during and after a shutdown, the markets averaged down 0.13%. More interesting is the fact that the one-week data shows that only 47% of the time did the market go down. More interesting still, in the month after the shutdown, the average price move was up 0.25%.

Nobody is saying that a government shutdown is good for stocks, or that shutting the government down is a great way to shake the market out of its current tailspin. But it probably isn't a good idea to panic about the market impact of a shutdown either.

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Citations:

1 - https://ritholtz.com/2018/12/fun-with-forecasting-2018-edition/
2 - https://www.zerohedge.com
3 - https://www.zerohedge.com/sites/default/files/inline-images/19%20govt%20shutdowns.png?itok=UIGSm3fB