TrendMacrolytics

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INTELLECTUAL AMMUNITION

A Big Score

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Bush wins. Stocks win. And the political futures markets win.

The equity markets have been blessed with the best possible election outcome. **George Bush** was re-elected, and the election was not disputed. The **GOP** gained in both the **House** and the **Senate**. Stocks have been creeping higher since August 12, the day the S&P 500, the NASDAQ and Bush's poll numbers all hit bottom. Now, as we expected, the bubble of fear has burst (see "Don't Miss the Obvious" November 2, 2004). Following the election the S&P 500 and the NASDAQ broke out of year-long declining trends, and as of yesterday the S&P 500 moved to new highs for the year. Stocks remain deeply undervalued -- and as this morning's jobs numbers show, this is no soft spot (see "A Girlie Man Economy?" September 9, 2004). So there is a great deal of room for more upside this quarter as the residue of fear from the election dissipates.

There is much more for us to say about the state of the post-election world. But for the moment, we wanted to give a farewell salute to an analytical tool that has served us very well this year -- the political futures contracts traded online at **Tradesports.com**. Election betting markets have correctly called the outcome 30 days out in every presidential election in which such markets have operated since 1884, with a single exception in 1916. Notch another win with this election. In a year when so many polls utterly failed us, consider what this small off-beat futures market accomplished:

As of month-end September (a little more than a month before the election), the futures

- correctly predicted Bush would win;
- correctly predicted all 50 states except three (NH, WI, NM); and
- correctly predicted all 34 senate races except four (AK, FL, NC, SD).

As of the last business day in October (four days before the election), the futures

- correctly predicted Bush would win;
- correctly predicted all 50 states except one (WI); and
- correctly predicted all 34 senate races except one (AK).

Once again, forward-looking market-based price signals have outperformed traditional statistical methods. As an aside, the same thing will happen again when traditional inflation measures eventually fully reflect the inflation currently priced in gold, commodity and forex markets. TM

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