Carefully in 2021

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The stock market is one of the benchmarks for every U.S. presidency. Voters often look at how stocks performed during a president's four-year term as one of the criteria for re-election.

But the reality is, the president has far less impact on the stock market than anyone thinks. Why? Let's use last year's somewhat surprising rebound of stocks – during the pandemic – as an example.

To put what happened in 2020 in perspective, we had the largest single-year

dollars, between the Federal Reserve System's special purpose vehicle, the bond buying, and a stimulus package.

So it was not a magic rebound of the economy. Overall it was only a temporary rebound, and it was simply a product of turning the economy back on.

The amount of cash that's been poured into this market is mind-boggling. And if the Fed continues to do that, stocks will keep going up. If it stops doing that, they won't. All that money injected into the system last year had to go somewhere. Part of it ran headlong into a stock mania that had been 13 years in the making, since the financial crisis of 2007-2008. It's just gone ballistic.

The Fed will have to keep printing money at this point. It has basically painted itself into a corner. If it stops being accommodating, the whole thing will implode, and the Fed will get the instability it's been trying to avoid since the financial crisis.

Cautious optimism

I think the stock market will continue to go higher, perhaps much higher. We're in a position similar to Japan in the late 1980s, and for a lot of the same reasons. In Japan in the late 80s it was referred to as window dressing, mandating that banks had to lend to corporations. And that was the biggest driver of their bubble.

That's much the same as what the Fed is doing now. It isn't mandating lending, but it's buying corporate bonds as part of the CARES Act, which was approved early in the pandemic. The idea is to backstop corporations and their employees. The buyers of those bonds are lending those companies money. If you're buying debt on the open markets vs. mandating lending, the outcomes are very similar.

When you look at comparative peak valuations – valuation being the analytical process of determining the current or projected worth of an asset or company – it's interesting. Japan's stock market back in the 80s was valued at two times where we

the markets dropped 85% over the next two years, and '99, when the Nasdaq dropped 85% over the next two years. I don't think a selloff that dramatic is going to happen again because of the underwriting by the Fed and the US government.

The higher the stock market goes, there's a natural inclination of some to panic in advance of a big collapse. But I think security is as simple as staying diversified in your portfolio. Meaning, investors need to get out of bonds and find bond alternatives, those that are insured against loss and don't have a fee.

It's important that investors across the markets take a long-term perspective and quit focusing on the short term. Stay disciplined and diversified and start looking more at the value side of things. There are a lot of great companies out there that have been overlooked because they're not tech, and they pay nice dividends.

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