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ROHR ALERT!! Election Reflections

1 message

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Dear Subscribers,

There are two things to keep in mind during today's official US election day after such a far-flung and divisive campaign. The first is to be patient. The second is to ignore the 'noise'. While some states will have 'fast count' election results, there are others with a 'slow count' process that will delay results (more below.)

And once again we are compelled to share the comment that this is not a political statement, as we only want to share the *realpolitik* of the situation, especially with our non-US clients. As analysts, we are neutral on prospects for any candidate, and more so focused on the market impact... which seems to be a Biden victory.

As opposed to the Trump warnings on US equities and economy crashing in the wake of any Biden victory the poll are favoring, the market response so far seems to be positive based on today's early rally above resistance. That would be the December S&P 500 future pushing above the interim 3,300-30 range at which it had been stalled again since slipping below it last Wednesday on the way to the top of lower 3,230-00 support. That said, 3,400-30 remains an important area, including the previous 3,397.50 February all-time high and Oscillator resistance.

This seems consistent with our previous assessment that the worries over the Democratic victory would bring higher taxation and more regulation. That would be an eventuality, but only after what will very likely be a sizable US government stimulus/relief package that has proven so elusive during the very highly partisan election campaign season. It will likely be at least as large as the original mid-May Democratic 'Heroes Act' \$3,2 trillion request, and possibly quite a bit more.

This persistent and widening Biden-Harris election poll lead has encouraged this expectation in the other asset classes as well. Note the return of weakness to the global govies (December T-note future down to the low end of 138-16/-00) and the weakness of the US Dollar Index (dropping back from the key low-94.00 area.)

That poll lead is not just large nationally. It is also the case in all of the many key 'battleground' states. Those are the states that hold significant electoral college votes which will determine the final result of the presidential race. However, do *NOT* say that to any Democratic supporters, who will be aghast at any expression of a clear lead for their candidates. They are suffering Trump 2016 victory PTSD.

In this case that is 'Poll Traumatic Stress Disorder'. Overconfident Democrats always considered the Trump candidacy a Republican Party failure, and highly disparaged his chances in the 2016 general election... until he won. Despite what would normally be a comfortable poll lead, they are rightfully hesitant to be assumptive, and also know this might depress their voter turnout at the margins. In other words, reasonably humble after the traumatic 2016 negative outcome.

That is why they are being careful in being 'patient', and willing to wait for the actual results in order to not prematurely make any assumptions on the likely outcome of the election. There are also the disparities between the timing of the vote count in various key states. What is most interesting on that is the critical Trump bastions where the vote count could be fairly rapid, with the reverse elsewhere. That could lead to both 'red' and 'blue' mirages early on.

Note the recent Reuters article (<https://reut.rs/3kHX3IT>) on that phenomenon for more details. It essentially breaks down into the vote counting regulations in each of those key states. Despite more recent Democratic challenges, Trump has a better chance to hold onto final victory in Georgia, Florida and North Carolina. However, all of those are relatively 'fast count' states on processing of pre-voting and mail-in ballots either previous or from the beginning of the day today. It is likely in places where Trump has better prospects (and desperately needs to hold) that early count may show a Biden lead which will erode in the later tally.

For much more specifics on key states, see this Vox article (<https://bit.ly/3jX4Gnc>) extensive review of the particulars. Of note, those include the 'slow count' in the key 'Blue Wall' states that Trump managed to very narrowly tip over in the 'red' Republican column in 2016. As the article notes, *"Pennsylvania, Wisconsin, and Michigan — the trio of states that clinched Trump's victory in 2016 — are a different story. Republican legislatures in each have almost totally refused to update antiquated policies on how mailed ballots will be processed and counted. So these states could take days to finish their counts."* Most interesting.

Of course, in those states an early Trump lead from the instantly tallied in-person voting will likely erode significantly later by the pre-voting and mail-in ballots that are nationally preferred by Democrats. That is by 67% to 33% and generally the inverse for the Republican voters. And this is where the need to ignore the noise becomes very important... because we know who the biggest 'noisemaker' is...

...President Trump, who has completely erroneously disparaged mail-in voting as subject to massive fraud. Just to ensure a levelheaded report on this, we went offshore to the recent BBC article (<https://bbc.in/3oSt6St>) on the topic. Yet this is not just their assessment, as the figure they cite is the same as that shared by FBI Director Christopher Wray in recent Congressional testimony we have already noted in previous analysis: *"...the rate of voting fraud overall in the US is less than 0.0009%..."* ...that's percent: so it is nine votes in every one million.

In other words, unless the election in some state is being decided by as few as several hundred votes, it is statistically insignificant. Yet the consistent noise from the President and his White House minions has been that substantial fraud influences the mail-in vote count (as they seemingly haven't figured out how to disparage the heavily Democratic pre-voting as yet.) In fact, it has gotten to the point where the President has tacitly threatened to stop the vote count after the polls close today. Once it was pointed out he has no power to do that due to the voting being run by the states, he quickly backed down from that hollow threat.

Yet that does not end the late phase interference the Republicans might attempt to tilt the tables in their favor. There have already been serial efforts to eliminate certain election processes (many based on addressing the COVID-19 pandemic threat to the health and well-being of the voters) which favor the Democrats, like mail-in ballot drop boxes (especially Texas) and reliability of drive through voting (also in Texas... hmmm.) Republicans seem to be the Party of Voter Suppression.

For more on that, please see a very good Reuters article (<https://reut.rs/3894K1b>) from Sunday that has been updated to reflect the most recent developments into Monday afternoon. That includes both the Texas Supreme court and a federal judge tossing a Republican-led effort to negate 127,000 drive-through ballots. Those were not surprisingly ballots in the particularly Democratic Harris County (including the city of Houston) in a state that is still at least marginally 'red'. However, due to migration from other states and a Trump Aversion Syndrome among some voters, there is a sense it might be in play this year.

All of that is just a tip of the proverbial iceberg which the Reuters article explores a bit further. Yet the real legal shooting will start when Trump and Republicans deploy the army of election lawyers they have positioned to question the overall results in many states where the results might be marginal Democratic victories. The ultimate goal: extensive delay. This is not just to defer any adverse decision against Trump (and likely other Republicans in what were previously considered safe districts.) It is to ultimately hope the process can be pushed into a lack of any decision into December and January. At that point it goes into the House.

And as Trump has overtly stated, he has a key definitive 26-22 state delegation advantage there, which means he will be 'reappointed' President by that body. Those contingencies were covered in post-debate analysis on September 30th. And rather than have you dig back through the previous assessment, we have repeated it below for your interest and ease of access:

"Even if all of the appellate courts and Supreme Court reject all of the many Trump campaign lawyers' motions to disqualify mail-in votes, there are two magic dates for which Trump and his supporters are shooting: the December 14th Electoral College vote, and the January 6th formal Congressional Electoral Vote Count. Please refer to the Congressional Research Service article (<https://bit.ly/3jfHzoA>) on the Electoral College process in the 2020 election for the full details.

"Should no winner emerge from either of those dates, the decision goes to the House of Representatives. That may seem a real blessing for the Democrats, who have a majority of members, and are likely to retain that in the general election.

"But wait!! Even though they have a majority of members, the House decision on the presidential election is not decided by a majority vote. Each state delegation is provided a single vote, and the Republicans control 26 states in that regard versus 22 for the Democrats. Consider the convoluted analysis in this excellent recent article in SLATE (<https://bit.ly/2GrVbyc>) on the potential machinations.

"For those of our readers who consider this far-fetched, and have not necessarily been tuned into the minutiae of the US election campaign, in fact President Trump has already referred to this potential in so many words on the possibility of an election result delay. In a recent press conference he had noted that if it goes to the House then he wins, based exactly on that calculation the Republican's 26 state delegations will vote to declare him the winner of the contest.

"Will Trump and the Republicans be able to stretch out a 'non-decision' that far into the future? It will depend on how quickly the lawyers for the Democrats (and they have also hired an army of them to counteract the likely GOP efforts) can accelerate any court timetables to bring any of the voting challenges to a quick resolution, knowing that any decisions will likely be appealed to the next level.

“So, welcome to the not-so-wonderful wacky world of US politics in the 2020 general election. For more on just how crazy a tied Electoral College vote for presidential and even vice-president can get, see this extensive short Tie Breaker video (<https://youtu.be/sHEDXzOfENI> covering even more contingencies than might occur this year from Taegan Goddard’s Electoral Vote Map site. He also offers a very good electoral vote map (<https://electoralvotemap.com/>), which illustrates Trump’s need to change the election calculus sometime soon.

And that is our end of the campaign trail US ‘election reflection’. What is most interesting now is not that the market is seeming to pick a winner. Is rather that the other asset classes seeming to reflect expectation of a Biden-Harris win (as noted above) is not weighing on the US equities in a way that would reflect the widely acknowledged (even by the Democrats) that a Biden-Harris victory will at some point mean a significantly greater level of taxation and regulation.

Yet market activity would seem to imply the operative phrase is ‘at some point’. And the more immediate influence into an increasingly dire economic situation (globally as well as in the US) is clearly the need for what will likely be a truly Brobdingnagian Democratic stimulus/relief package that will buoy the US equities and continue to weigh on the global govies and the US dollar.

**Another Courtesy Repeat of Thursday’s critical consideration (updated charts)
[To be fully updated after the initial US election count is in Wednesday morning]**

The front month S&P 500 future pushing out of the broad higher range top in the 3,030-2,970 area in early June was the key to it surging to the 3,200 area. That was the next meaningful higher resistance with a 3,230 Tolerance at which it failed previously on the rally (as is clear on the weekly chart <https://bit.ly/3jOJRKD> updated through Friday, October 30.) Yet it also pushed above it out of late July.

This opened the door to a retest of the February’s 3,397.50 front month future all-time high. And after such a major rally back from the February-March debacle, it was hard to imagine the old February all-time high could prevent the front month S&P 500 future from at least taking a look above 3,397.50; and that then transpired on the late August push above it into the low 3,500 area.

Aside from the sheer magnitude of the selloff in the first week of September, it was important as a technical pattern top. With such a significant rally above the previous week’s 3,504.50 Close, the drop well below it established a major DOWN Closing Price Reversal (CPR) with a 3,510 Tolerance. Along with the 3,540 topping line, that is now key resistance after a recent sizable recovery from lower support.

The next significant support after it traded below the February 3,397.50 previous all-time high looks like the 3,230-00 range we had previous highlighted as rally resistance into early June. On the recent attempt to stabilize at no worse than the 3,300 area, the market exhibited a couple of less than credible pattern bottoms with key failures in the 3,400 area (see our September 18th ALERT!! for a full discussion and Evolutionary Trend View fully annotated chart analysis.)

Yet it held that 3,230-00 area once again. And recently surging back above the 3,400-30 area leaves a burden of proof on the bears to get the market to fail back below that area. In the meantime, whether the December S&P 500 future can post serial weekly Closes above first

3,505-10 and ultimately the 3,550 area will decide if it is indeed again 'Risk On' Forever. Yet for now it has violated the key lower 3,380 Tolerance of the 3,400 area (now including weekly MA-9 & MA-13. While it is now dealing with the 3,280 Tolerance of the interim 3,330-00 range, the far more major support remains the 3,230-00 area heavy congestion and the 3,000 area.

Thanks for your interest.

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