

# Profitable INVESTING Tips

## Stock Market Investing Tips, Techniques, and Resources



### Will Washington Gridlock Be Good for Your Investments?

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The market loves predictability. One thing that is fairly certain when power is split between Congress and the White House is that there will be gridlock. And gridlock means there will be no new legislative surprises. The red wave expected by Republicans has [not been as great as expected](#) but we are still looking at shared power in Congress instead of Democratic majorities. Will Washington gridlock be good for your investments?

### Why Does Wall Street Like It When Washington Is Gridlocked?

*The New York Times* looked at the likelihood of a split between control of the Executive branch of government and Congress. They note that stocks tend to do badly in midterm election years but better after the election no matter who wins. And they do their best when the election delivers a [divided government](#) between the Executive and Legislative branches. Ever since 1950, stocks have gone up the following year after the midterm elections no matter who has won. As such the end of each midterm election can be seen as a generalized buy signal! A stronger buy signal, if this pattern continues, will be Republican control of at least one house of Congress. There does not have to have been a huge red wave for this to happen. There only need to be enough votes in the House or Senate to block Biden's agenda for the next two years.

### Less Uncertainty and Balanced Policy Are Popular with Investors

Business likes it when the government acts in a businesslike manner. The market not only likes this but it likes uncertainty to go away. When the dust has settled from the midterms the market has a better idea what is in store for the next two years. When the party holding the White House no longer holds control of both houses of Congress, compromise becomes the order of the day once gridlock and the never-ending game of "chicken" is played out on issues like raising the debt ceiling.

Most dramatic legislation happens in the first of a president's term and when the other party takes away the president's legislative majority in the last two years of the four-year term there are rarely any big legislative surprises for business and the market to have to contend with. Even if profits do not go up all that much the prospect of calmer seas generally encourages investment in stocks and causes a bull market.

### Who Wins With Gridlock in 2023 and 2024

Energy and defense stocks will likely do well with a divided congress as support will continue for the war in Ukraine and defense increases based on concerns about China. Republicans will keep Biden from imposing any extra war taxes on big oil companies for not foregoing price increases due to the refusal of the Saudis to raise production as Russia is increasingly hemmed in by sanctions. The expected red wave has not been enough of a wave to see a rollback of prescription drug price negotiated by Medicare so we do not see a big benefit for big pharma. Big tech companies have gained enemies in both camps and will still be looking forward to more

oversight and regulations.

Neither party has an immediate cure for inflation and the Fed is likely to keep raising interest rates until the economy buckles. That being the case investors should keep in mind the possibility of a prolonged, [u-shaped recession](#). The only answer for Putin's invasion of Ukraine and the war's fallout will be continued support of the Zelensky government and deterrence of Putin from the use of nukes, etc. Because Biden will not be hamstrung by severe minorities in either house of Congress this will likely continue which will mean cold winters in Europe with a severe recession, dark nights in Kyiv, and a dwindling stock market in the US after the initial euphoria of Washington gridlock has worn off. Big cap [dividend stocks](#) that have paid increasing dividends for decades will become more popular as people cut back to spending on essentials.

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