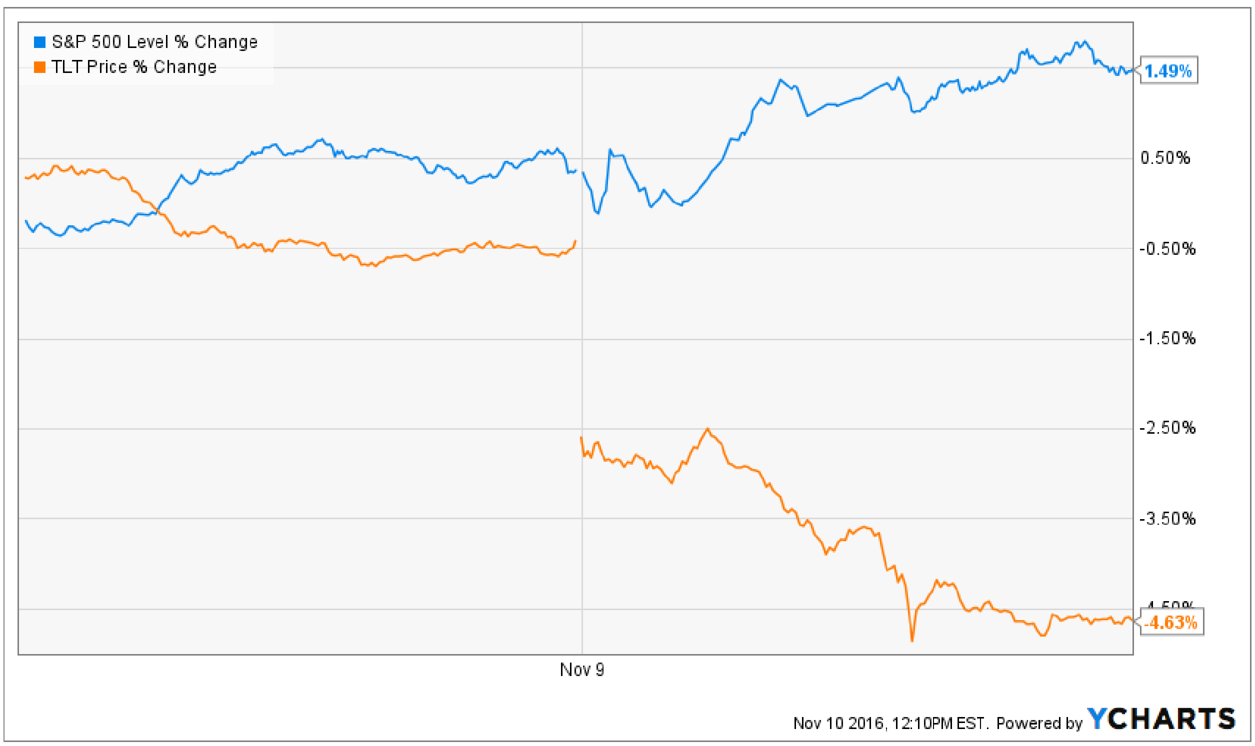
Market Update

November 10, 2016

Trump Presidency and Your Money

What a difference a month makes:
Just a month ago it seemed that Hillary Clinton had a significant if not insurmountable advantage over Donald Trump to become president. As things have now played out, Donald Trump is our New President Elect. On November 8th as the votes were coming in the Dow and S&P 500 futures markets had been indicating a severe market correction and the Bond futures were signaling an increase in Bond prices and lowering of yields. However, this all started to change as Donald Trump gave his victory speech and discussed unification and cooperation. The next morning the complete opposite of what the futures markets were predicting came true. The US stock market rallied and the US bond markets sold off. As you can see from the two day chart below the S&P 500 was up 1.49% and the Price of TLT, which is a proxy for long term U.S. Treasury Bonds, was down 4.63%. The yield on the 10 year Treasury rose over 11% from 1.862% to 2.072%.



Information in this chart above was taken from sources we believe to be reliable; however we do not guarantee its accuracy or completeness.

I will get into why and what that means for investors in the next section of this update. Many investors woke up expecting markets to crash and portfolio's to be down. Instead, they saw equity markets racing toward new all-time highs. What was not being discussed by main stream media outlets however, was that bond prices were going down and interest rates were rising as a repricing of risk was occurring. Many investor portfolios, especially those that had less than 70% to 75% over all exposure to equities (stocks), were either flat to slightly down for the day. This happened because in a well-constructed portfolio that holds low correlated assets such as stock and bonds, the bond component was down more than the equity (stock) component was up. I see the bond correction as a longer term phenomenon, but one that should not shy investors away from them. I also see yesterday's bond re-pricing as likely the majority of the shorter term re-pricing movement that will occur. As I have mentioned in my previous monthly market updates, I feel the equity markets will rally through the end of this year and now potentially through all of 2017 with periods of time of normal corrective behavior.

Trump Presidency, Stock Market Rally, the Bond Market Sell-off and Your Money:
My goal here is not to make a political statement but rather try and explain the reasons why equity markets are rallying and may continue to do so going forward. I see 10 main themes that have become front and center to consider due to a Trump Presidency.

1. Potential for less regulation and its effect on small business
2. Defense + Infrastructure Spending
3. Inflation due to more Government Spending and a subsequent increase in Money Supply
4. Lower personal income tax rates and simplification of the tax code
5. Lower corporate tax rates
6. Potential repatriation of foreign profits
7. A more positive outlook for Oil, Gas and Coal
8. Banks, Biotech and Pharmaceutical companies not facing the potential crack down a Clinton presidency promised
9. Repeal and replacement of the Affordable Care Act
10. Potential Trade War vs. Better Trade Deals

The potential for less regulation will not only be better for larger corporation growth potential but will also reduce the cost and burdens on small business. Areas like Banking, Energy and Biotech, and Pharma may be the biggest benefactors, as well as small business owners. Defense and Infrastructure spending will certainly benefit those sectors of the market and may go a very long way in putting many of the still out of work Americans back to work. The government spending in this area will however have an effect on Inflation as more money is put into the economic system, thus increasing the money supply which typically leads to an increase in inflation and a subsequent increase in interest rates. I believe this fact is why we have seen such a drastic one day move down in bond prices and increase in interest rates in the past couple of days. If President Trump can lower the overall income tax rates and simplify the tax code as he says he will, this could benefit all Americans and hopefully provide an environment where not just the rich can benefit from the tax code. Lower Corporate Tax rates are generally positive for all business as more of the profits earned can be kept in real dollars and put back to work by all businesses. Foreign profits may be repatriated from our country's large multinational companies by imposing a lower tax rate to incentivize bringing them back to the US. This has the potential to greatly benefit our country by bringing money back on shore and growing our economy. Will businesses do this? The first step is to get the tax rate approved and then we will need to see how businesses decide to act. Trump had campaigned on revitalizing and putting back to work the people in the Energy sector of our economy, specifically Coal, Oil and Gas. Economically, these sectors should benefit from a Trump Presidency and lower regulations. Secretary Clinton was very vocal about going after Biotech and Big Pharma as well as Banks. Both of these sectors of the market rallied on the news of a Trump Presidency as he has not made going after these sectors a priority. Trump promises the repeal of the Affordable Care Act which if done successfully, and the alternative plan he proposes works well, may reduce the cost of health care coverage from where it is today. This will bode well for the individual person but not large health care providers as we have seen a sell off already occur in that segment of the market. Lastly, is the renegotiation of trade deals. If Donald Trump can thread the needle in this area, not cause trade wars and increase the benefits the U.S. gets from these deals, then positive economic effects can develop. This may be the most precarious of all his promises.

The equity markets have rallied on the optimism of these ideas. The execution is critical and many of these things need time to develop to see if they will actually happen and work. I for one tend to always like to stay on the more positive thinking side of things and certainly hope that the current market reaction is the correct one.

Over the next several months the Trump Presidency certainly will require a few changes to portfolio construction. I believe that the long term strategic asset allocation ranges established are appropriate to review but not much may need to change between the actual mix of equities, fixed income, cash and alternative assets one holds. I believe the biggest changes need to potentially happen inside of those broad holdings however. For fixed income holdings, shifting more from longer maturity higher duration bonds to a shorter maturity and lower duration mix is appropriate. Looking at taking advantage of sectors in the equity allocations and potentially adding more Financials, Biotech and reducing interest sensitive areas such as Utilities will make sense for many portfolios. Real Estate Investment Trusts (REITs) may continue to see pressure as they tend to be an alternative to low fixed income rates. As those rates go up, REITs will continue to see pressure. However, for many investors, especially longer term investors, I see this as potentially being a period of time to dollar cost average into higher quality REITs.

Over the next several weeks I will be repositioning some assets in portfolio's to take advantage of these themes, as well as continuing to monitor asset allocation and bring them back into balance with long term strategies.

If you have questions or would like to discuss this further with regard to your personal portfolio please contact me at 310-433-5378.

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