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Investment Solutions

MARKET COMMENTARY

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Dow Jones Industrial Avg. 18,308.15
2016(YTD) + 5.1 % 3rd Qtr. + 2.2 %

Standard and Poor's 500 2168.27
2016(YTD) + 6.1 % 3rd Qtr. + 3.4 %

New Administration in January – “Only those who will risk going too far can possibly find out how far one can go.” T. S. Eliot, English poet and essayist

It Is Finally Over – The voters have spoken. Donald J. Trump defied the odds and 98% of the “experts” to win the Presidency over Hillary Rodham Clinton. Down in the polls by double digits with only a few weeks to go, Mr. Trump upped his game with the belief he could neutralize what the Democrats regarded as their solid blue line of support in the old industrial states spread across the mid-west. With a superhuman effort he jetted across the country visiting four or five states a day concentrating his efforts on those states with a targeted message of fair trade, immigration reform, and tax cuts. His victory can be attributed to conviction and effort.

Hillary's Surprise – Mrs. Clinton, on the other hand, appeared content to rely on her impressive poll numbers. With ten days to go, she was blindsided by FBI Director James Comey revisiting her irresponsible use of a private e-mail server while serving as Secretary of State. Her once insurmountable lead quickly faded. In an effort to re-energize her campaign, her advisers brought in their A-list of well known surrogates. Her husband, ex-President Bill Clinton; the current President Barack Obama and his wife, Michelle; Vice-President Joe Biden, Senators Bernie Sanders and Elizabeth Warren came out to support her. A number of entertainers including Beyonce and Katy Perry took the stage with her as well. However, Hillary was unable to match the energy of Trump's close. In the end, it was likely her inability to communicate a positive agenda to voters. From the beginning, her message emphasized her background and experience to be President, while informing voters that her opponent lacked both the temperament and the experience needed in that office. In the final analysis, voters chose the outsider over the insider.

The Controversy Continues – One of the proud traditions of our republic is the peaceful transfer of power. This tradition is undergoing its severest test in memory. Given the rancor emanating from both sides during the campaign, such a result should come as a surprise to no one. Donald Trump introduced a negative tenor early in the primaries, so now it falls on him and his advisors to alter the negative portrait generated by the opposition and the media. President-elect Trump made an initial effort by offering a reasoned presentation recently on Sixty Minutes with Leslie Stahl as he described some of the goals he hopes to achieve when he assumes office. He stated that peaceful protests are a legitimate means of expressing grievances; wanton destruction is not. Just as conservatives felt disenfranchised eight years ago when President Obama was first elected, liberals now feel they have neither a voice nor influence so they have taken to the streets. Realistically, without the Presidency or either house of Congress, liberals/progressives are faced with the major task of trying to rebuild a majority coalition, which can take years.

Trump's Agenda – In less than ten weeks, Trump will be sworn in. In the meantime, he and his transition team have a myriad of challenges to address. It is estimated they have to identify and select as many as 4,000 new hires to replace those who have worked in the Obama administration. Next, they will need to list and prioritize their goals for the first 100 days. Needless to say, Mr. Trump has put forth an ambitious agenda, which includes repealing Obamacare; across-the-board tax cuts (both corporate and individual); significant immigration reform, including the controversial wall; and a major emphasis on improving the nation's infrastructure. As is often repeated on the endless stream of TV infomercials “... but wait – there's more!” The President-elect also informed voters the Defense Department has been woefully underfunded by the current administration, and he intends to rebuild the force. Finally, he intends to adopt a different approach to our trading relationships. He believes our negotiators have not provided us as much benefit as it has our trading partners. He points to NAFTA as a prime example.

What Costs? – In keeping with the spirit of the season, Trump’s agenda resembles a child’s holiday gift list. Price is no object when you are dreaming, but he needs to be reminded the nation now has an annual budget deficit, which exceeds \$600,000,000,000 (that’s Billion!), as well as outstanding debt of \$19,000,000,000,000 (Or Trillion!). To add to this looming financial avalanche, there are the large, unfunded obligations associated with Medicaid, Medicare and even Social Security. One would hope a businessman or corporate executive like Trump would place these financial challenges among his most important priorities, yet he is has been as silent on these budgetary imbalances as was Hillary.

What Me Worry? – This phrase is borrowed from a MAD magazine character, Alfred E. Newman, and a sentence from the same era expresses the same sentiment well, “Don’t sweat the small stuff.” Wall Street has gleefully embraced Trump even though their financial support primarily benefitted Mrs. Clinton. In spite of the split decision (Trump won the electoral vote, while Clinton won the popular vote), the stock market promptly soared higher in anticipation of Mr. Trump’s growth-oriented initiatives. The opposite reaction was evident in the fixed income market. Interest rates spiked as investors eyed the potential of significant spending for several of the President-elect’s programs. Moreover, a major concern in the bond market is interest rates have finally passed the often-predicted inflection point, and rates may now gain momentum as they push higher. This is likely to serve as a drag on lending in general and mortgage lending in particular. On the positive side of the ledger, higher interest rates will provide a welcomed benefit for long suffering savers, and if rates continue to move higher, so will incomes. At long last, balance will be restored to the financial world. Borrowers will no longer receive the benefit of artificially low, government engineered rates, and savers and investors will once again, after nearly a decade, be able to earn a fairer return on their savings.

Turmoil Ahead? – One result of this change in political leadership, particularly in view of the dramatic changes promised, is an increased level of uncertainty. Since it is generally recognized the stock and bond markets do not like uncertainty, instability will rule both markets until the new administration proves it can deliver on its ambitious goals without busting the budget. The bond market has weakened because growth expectations have improved. Another concern stems from the projected large Federal budget imbalance if President-elect Trump’s rumored tax cuts are all passed by Congress. In short, interest rates are expected to move gradually higher over the next year, but beyond that it will depend upon whether or not Mr. Trump’s ambitious agenda achieves some success. With that outlook in mind, long and intermediate-term bonds are in danger of declining in value. If that occurs, total returns for bonds will likely turn negative. To protect principal, an investor needs to shorten maturities. Stocks confront a similar dynamic, except prices are currently situated near all-time highs (high stock prices + uncertain economic prospects = neutral – defensive positioning.) In light of the recent strength in equity prices, a prudent approach is to focus on value. The definition of value lies in the eyes of each investor. Our suggestion at this time is a favor G.A.R.P. (Growth At a Reasonable Price) stocks. Identifying stocks with reasonable a growth potential is desirable; paying too much for them is perilous.

Plan Ahead – As the year comes to a close, there are still a few weeks to do some financial housekeeping. Topics to consider are gifting, required minimum distributions from all of your IRA’s (if age greater than 70½), and year-end tax selling. Any actions impacting your taxes should be approved by your accountant. Many families save their final decisions with respect to gifting until this time of year. One idea to consider especially for sizable gifts, whether to individuals or charities, is to use appreciated securities rather than cash. Many local charities now have the ability to accept your old car or boat by employing a third party to sell them. Either of these options should be started as soon as possible, so they can be wrapped up by year-end. Individuals over 70½ must take the required minimum distribution from their IRA’s by December 31. If this is not accomplished by then, a hefty penalty is incurred. The distributions do not have to be taken from each account. It is always advisable to review the gains and losses realized by any taxable trading during the year. Offsetting gains with losses will reduce the tax bill, and it is also wise to check to see if any capital losses have been carried forward from previous years.

We wish you and your families an enjoyable Holiday Season!

JML