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**MARKET COMMENTARY**

May 12, 2017

<b>Dow Jones Industrial Avg.</b>	<b>20,663.22</b>	<b>Standard and Poor's 500</b>	<b>2,362.72</b>
2017(YTD) + 4.6%	1 <sup>st</sup> Qtr. + 4.6%	2017(YTD) + 5.5%	1 <sup>st</sup> Qtr. + 5.5%

**Doing Our Part** – National Tax Freedom Day was April 23. If you include annual federal borrowing (i.e., future taxes owed), it is May 7.

**The Ultimate Flip-Flop?** Is it possible our President, the consummate wheeler-dealer, has managed to mislead both parties? There has been a rumor of a Trojan horse sighting in Washington. Candidate Trump was able to methodically eliminate all of his Republican opponents because he didn't act or sound as a typical politician. To achieve his goal of becoming President, Trump displayed a total disregard for Marquis of Queensbury rules. Most of his Republican opponents claimed he landed at least one low blow against them, and that approach succeeded in his contest with Hillary Clinton as well. So now that the dust has settled, what is the result? There is shouting on the left, bluster on the right and a growing unease among those in the middle, who actually decided the outcome of the Presidential election.

The majority of Democrats will never acknowledge anything Trump tries to claim as an accomplishment. Similarly, most traditional Republicans will continue to question his conservative pedigree. President Trump entered office with an ambitious if somewhat ambiguous agenda. Rather than a comprehensive, well-thought-out plan, he appears to have cobbled together a string of populous topics that appealed to his base and therein lies the rub. Since he appears to give only lip service to conservative principals, he will have a difficult time amassing the votes needed to pass any of his legislative agenda given the limited commonality between his goals and those of the Republican controlled Congress. The President finds himself being constrained in much the same way his predecessor was. In order to effect significant change in Washington, it is necessary to develop a working relationship with Congressional leaders. There is good reason to believe Trump will not be any more successful than Obama was in forging the necessary relationships in part because it requires a willingness to share the spotlight and the credit. President Trump has been credited for the quality of his cabinet appointments, yet criticized for the nepotism resulting from the appointment of his daughter, Ivanka, and her husband, Jared Kushner.

Ultimately, his success will depend on his ability to fulfill the promises he made to his supporters. At this point a lenient grader would give him a B for effort, but a D for results. The President has yet to demonstrate his "Art of the Deal" tactics can be effective in the nation's capital. This should be a surprise to no one even the President himself in light of his lack of respect for politicians. Further complicating the equation is the determination of the Democrat minority in Congress to oppose and delay – everything. Even more perplexing for Trump is the inability of the Republicans in the House and Senate to get on the same page. Gridlock is the result, which in reality is the constant state of the Washington establishment. Today the Republican-led House passed their healthcare bill, which has been a top priority of President Trump. Now the Senate will have an opportunity to scrutinize the legislation and will consider constructing its own version. If the Senate and House achieve consensus, the bill will go to the President for his signature, and it will mean the end of Obamacare. The public's view of this immense program, which represents sixteen percent of federal expenditures, will then become the responsibility of the President and his party. Their apparent success carries with it the potential for failure as well. As the bill was being debated in the House, opponents pointed out many weaknesses. It will not be a surprise to have healthcare remain as a contentious political issue whether it passes or not.

**Do Deficits Matter?** - Now the President and Congress will shift the focus to two programs they hope will provide stimulus to the economy. The first is to adopt the Financial Choice Act, which is intended as a replacement for the Dodd-Frank law. That law was instituted to address many of the financial excesses regarded as causes of the Great Recession of 2008 and 2009. Much of the damage from the recession emanated from the large banks, so the law was promoted as a means of curbing some of their undesirable practices. The public was led to believe the legislation would assure the banks would no longer be sheltered by the “too big to fail” principal. The action did not produce the desired results as the big banks grew even larger and the smaller community banks were stunted by the regulations. To remedy the situation, Republicans have proposed the Financial Choice Act, which should relieve local banks of some regulatory burdens and hence allow them to do more local lending and help spur small business growth.

Another major goal of the President is to cut taxes and revise and simplify the tax code for corporations and individuals. Staunch Republicans, who are believers in trickle-down economics, solidly support this approach yet other conservatives insist it is time to make a serious effort to control spending. Sadly, the growth in spending will continue because every politician knows it is the best way to guarantee re-election. Moreover, President Trump has provided cover for the Congress by declaring entitlement spending (Social Security, Medicare, and Medicaid) “off the table”. In spite of Trump’s campaign rhetoric, little will change in the nation’s capitol, and the swamp creatures are already breathing easier. If the Democrats are smart, they will leave the Republicans to their own self-destructive devices.

**Healthy Profits; Higher Stock Prices?** – Stock analysts usually ascribe a link between stock prices and business profits. For more than a year, this relationship has been subjected to increasing stress as stock prices have trended steadily higher, while corporate profits stagnated. Since the election last fall, businesses have displayed a more positive attitude and this has been supported by a steady rise in consumer confidence. These more promising trends were brought into question when economic growth during the first quarter only advanced at an annualized rate of 0.7%. Therefore many investors have been pleasantly surprised to see reported earnings for the period grow at a double-digit rate. Two questions come to the fore. How long can this above-average rate of growth be sustained? Will these improving earnings lift stock prices to new record levels? My answer is “it depends.” Depends on whom? Our friends in Washington. The politicians are tempting fate with their efforts to repeal and replace Obamacare and to revamp the entire tax code. The law of unintended consequences guarantees even if they successfully pass both pieces of legislation, the effects will jeopardize the current economic momentum.

For stocks, this type of trading environment is best left to momentum traders, those who focus on short-term profit opportunities. Long-term investors need to exercise a degree of caution given the persistent market advance since the beginning of last year. With the popular indices near their all-time highs, valuations are rich, meaning most stocks appear expensive. Therefore investors need to be selective and patient. A prudent tactic to employ in such a market environment is to maintain a healthy cash reserve, even though there will be only a slight return on these funds. Interest rates have taken their cue from recent pronouncements by Federal Reserve Chairman Janet Yellen, which suggests there will be as many as three rate increases through the balance of the year. Six month U.S. Treasury bill rates are now approximately one percent, so it is reasonable for investors to expect even higher rates by year-end.

**Etcetera** - Once a year all financial organizations are required by law to provide all of their clients a copy of the firm’s privacy policy and practices. Ours is included with this letter. Online security is a widespread concern. You can send sensitive or confidential files to us by utilizing our website – Lenkladner.com You will find a tab for a secure file upload. Your data will be encrypted and transferred to our secure email host. Please call us if you have any questions about the process. In addition, to help you keep abreast of the ever changing tax code, we are again providing you the 2017 Tax Reference Guide, which also includes helpful information relating to social security benefits, and college savings incentives. - JML