

November 2016

■ A Surprise Donald Trump Presidency – The Implications

U.S. stock indexes this Wednesday after the election were trading higher, paring steep pre-market stock futures losses, after an early-morning astonishing victory by Republican candidate Donald Trump over Democrat Hillary Clinton. This was preceded by fearful trading overnight in foreign markets (especially in Asia). After initial post-election market jitters, traders now appear to be evaluating the potential economic benefits from Trump's plans to cut taxes and spend money on infrastructure projects that would put Americans to work. This has seemed to calm the U.S. market for now.

Some analysts are comparing this political event to the shocking British vote in late June to leave the European Union, which was also characterized by untrustworthy polls, rising populism and an angry electorate. The U.S. stock market suffered a two-day drop of 5.6% after the surprise Brexit vote. The stock market, however, fully recovered 10 trading days later. The even greater shock of a Trump presidency, however, may keep the uncertainty level higher in markets for a bit longer as president-elect Trump won't take office until January. And his actions in the initial days of his administration are still unknown. Investors and markets don't like uncertainty. What is known is that his party also controls the House and Senate, which *may* help him implement his economic policies that are seen to be pro-business overall.

■ SFC TIS Portfolio Positioning and Outlook

As mentioned in past publications, our tactical positioning has been conservative by being underweighted in stocks and bonds (thus overweighed in cash). Conservative positioning, along with several beneficial investment holdings and timely trading, has led to favorable portfolio performance in a volatile market over the past couple of years. One major reason for being conservative had been the polarizing presidential election and the uncertainty it brought to stock markets. And although the presidency has now been determined by the U.S. electorate, new uncertainty and possible stock volatility remains in the short-term (for issues mentioned above).

Still we believe there's no need for investors to fret. The good news is that lately economic indicators—such as higher-than-expected GDP (gross domestic product), corporate earnings and continued employment growth—have shown strength. It may take a while before the full effect of a Trump presidency is felt, and should not materially affect the U.S. economy in the meantime. We are not currently selling stock funds/ETF positions. In fact, if global stock markets fall (as what happened in February) we will again use a portion of excess cash in accounts to invest in stocks and alternative investments. As we keep preaching, stock market corrections provide an opportunity to buy company stocks on “sale” when investor fear drives down stock prices to more favorable levels. While not trying to “time” the market, buying on these dips in equities typically provides mid- to long-term opportunities to add profits for clients.

We currently have a nation and world in shock with a Donald Trump victory. And while that most likely means significant change may be coming, our nation has been through many shocks in its relatively short history and has not only survived but has risen stronger. Yes, we face possible social and economic instability in the short- to medium-term, but I know we as a nation will eventually move forward thanks to our strong democracy (set in motion by our courageous and insightful founding fathers), risk-taking entrepreneurs and their hard-working employees ... regardless who's in the White House. One thing is certain, as Nobel Laureate Bob Dylan said, “The times they are a-changin’.” And change, while hard, is many times a necessary and positive event. As such, we remain hopeful for the future and our advisors and their clients' accounts.

As always, a patient disciplined approach and unemotional analysis remain key to our firm in assisting advisors achieve their clients' long-term financial goals. Any significant changes to your accounts will be communicated to you. We appreciate your continued confidence. Your inquiries are welcomed.

Best regards,
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Dedicated to Protecting and Growing Clients' Wealth

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