Magellan Planning Group, Inc.

The Economy: Trump vs. Hillary

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October, 2016—After concluding a final meeting on the U.S. Constitution with some other Founding Fathers, Thomas Jefferson was asked by a waiting patriot what it was they had given the new nation. His response, "*A near perfect republic—if you can keep it*."

Watching the current election circus makes we wonder if maybe we've already lost it. What would Jefferson and Washington say to us today? I get the feeling they would chastise us mercilessly. Have we failed their hard-fought legacy? Has the near perfect republic finally been undermined as Jefferson feared? Have we lost our way?

Without commenting on the idealism or character of either candidate, and acting as an apolitical objective party, we are forced to ask the practical question: how will the election of either of the proffered candidates affect the stock markets?

Already you may have heard—depending on the news outlets you frequent—that if Hillary wins, the market will crash because of her socialist policies; or if Trump wins the market will crash because he is (insert adjective here).

My friends, I have said it a thousand times—the news media is NOT in the business of delivering the news accurately or impartially; they are in the business of selling commercials. They can charge three times the amount for commercials because we are three times more likely to tune in for bad news rather than good news. Not just any 'ole bad news, mind you, but bad news that affects us directly.

So speaking of what affects us directly, let's take a quick look at each of the candidates' economic policies—ignoring all their other faults—and try to evaluate the situation based on calm and rational logic. Logic removes the errors of emotion. And in this election year, there is *a lot* of emotion.

<u>If Hillary Wins</u>

Let's take the easy one first: Hillary. If she wins, we believe it will be a big non-event (economically speaking only, of course). She will basically usher in a smooth continuation of Obama's policies. The markets love stability and hate uncertainty, so you could expect a Hillary win to not really rattle the markets either way. In fact, we would have reason to expect a minor rally.

We certainly do not see a major market crash occurring as a result of her election, but we also do not see her presenting any new incentives to spur massive growth. Hillary simply means no change, go about business as usual. Consistency, predictability. The market likes this.

However, if she later increases taxes and the debt continues to escalate, we could be in for real trouble down the road as economic activity would continue to slow. An expansion of Obamacare would continue to decimate the middle class, as employers who would have otherwise employed full-time workers, choose instead to hire part-time or contract workers.

The intention was nice, but the execution was thoroughly flawed, so that, in the end, Obamacare became just another tax—a tax on employers which, like so many taxes, ended up being passed on to the workers themselves.

A personal story will help elucidate this fact—we inherited the daughter of a dear client who passed away a couple of years ago. As a single woman at age 62, working full time and more, her salary is about $36,000 per year. After taxes and living expenses, she can't afford to pay the almost $700 per month her health care insurance is costing her—her Obamacare. It is a bitter irony that she is forced to withdraw from her retirement savings to pay her own healthcare premiums.

My friends, taxes are like brakes—if you want to slow something down, press the tax peddle. We have seen this proven repeatedly in our country, around the world, and throughout history. As nice as it sounds, socialism just does not work. And if you think it still might, take your next vacation to Venezuela—talk to some folks there, they are no longer believers. And there are currently some great discounts.

<u>If Trump Wins</u>

Now for the wild card. If there were ever a wild card politician, it's Trump. Wow. Can you believe the in-fighting within the Republican Party? The GOP will probably never be the same.

In any event, a Trump win would certainly create a news shockwave around the world, but would the market crash as some pundits have predicted? Aren't these the same geniuses who said Brexit would crash the EuroZone and the whole world? No, we just don't see it. The world is flush with easy cash.

Nonetheless, if Trump wins there could be a short term pause or perhaps a small pullback as investors try to come to terms with the new presidency, which, according to his rhetoric, would be business friendly. He says that he will work to reduce the corporate tax rate from 35% to 15%. Both parties agree that it should be reduced, but disagree on the rate, so that gridlock has prevailed and nothing has been accomplished. Typical.

If a Trump administration is able to actually accomplish it—which in itself will be a major challenge—it could be a "yuge" boon, seriously. According to Citizens for Tax Justice, a citizen-supported non-profit organization:

> All told, American Fortune 500 corporations are avoiding up to $695 billion in U.S. federal income taxes by holding $2.4 trillion of "permanently reinvested" profits offshore. In their latest annual financial reports, 27 of these corporations reveal that they have paid an income tax of 10 percent or less in countries where these profits are officially held, indicating that most of these monies are likely in offshore tax havens.[1]

And these are just the top 500 companies. No one knows for sure how much is actually hiding out offshore, but everyone agrees it's a whole lot. And a truism that socialism tends to chronically overlook is this: It's better to get 15% of something rather than 35% of nothing. It was this principle launched during the Reagan and Bush Sr. administrations that built a budget surplus enjoyed during the Bill Clinton years. Well, that and the Internet.

Let's Recap

A Hillary win would most likely be more stable in the short term, with slow to modest growth in the longer term. If she raises taxes on the working class—which is essentially what Obamacare morphed into, though surely unintentionally—then our country will face greater budget deficits as interest rates rise on an already rising debt of nearly $20 trillion.

A Trump win would most likely be more volatile in the short term, with potentially higher growth in the longer term, and meteoric growth if he does it right, which is unlikely because he would have to rebuke the Federal Reserve System, and no politician can withstand that.

Clearly Trump is a politically charged and divisive character. We believe demonstrations could break out in several urban areas if he were elected, but this would be Obama's problem until January 20th. In addition, November is usually cold and this tends to mitigate outside participation. The answer to that, of course, as our Bolshevik friends have aptly demonstrated, is just to set fires.

No economy likes rioting of its citizens, and a Trump election would be the excuse d'elegance. This kind of backlash could damage market sentiment for some time. In addition, the problems of the debt and the deficit are as much a problem for him as for Hillary, and there is no palatable solution for either.

So What Do We Do?

Great question. For our clients, we are going to do the same thing we did for Brexit: look for a buying opportunity. We have recently taken advantage of higher stock prices to rebalance into safer investments and create some cash. We plan to deploy this cash when the markets pull back—a result we expect when uncertainly prevails—at a time yet to occur, or perhaps beginning to occur.

Our on-deck investment was decidedly unanimously at a recent meeting of our investment committee: a fund comprised of companies that develop and manufacture artificial knees, hips, and the like. More and more of our clients are successfully receiving knee and hip replacements and are happy with the result. As more baby-boomers opt for replacements, we

[1]http://ctj.org/ctjreports/2016/03/fortune_500_companies_hold_a_record_24_trillion_offshore.php#.V_7LIfkrLIU

feel as though this is a good space to invest for the longer term. We just don't see this trend turning around.

I know that many people would, and do, advise the opposite approach—to cash out, sell everything, and wait and see. But this, my friends, is in exact opposition with the facts. And remember, when it comes to investing, it is logic verses emotion, and in the history of the world logic has always ultimately triumphed, although it frequently didn't *feel* good.

Let's take a look at these annoying, yet somehow comforting, facts. You may have heard the adage, "its time in the market, not timing the market"?

This has certainly been true over the last twenty year period ending December 31, 2015. Take a look at this chart:[2]

Investment Period	Average Annual Total Return of S&P 500 Index
Stayed Fully Invested	8.19%
Missed the 10 Best Days	4.50%
Missed the 20 Best Days	2.06%
Missed the 30 Best Days	-0.04%
Missed the 40 Best Days	-1.97%

Over the last twenty years, if you had missed the best 30 days—just 30!—your return would have been less than zero! Astounding.

If you had missed the best twenty days, you would have barely squeaked out a positive return for the entire twenty year period. You can see for yourself how time in the market is really the key.

In fact, a University of Michigan professor analyzed almost 8,000 trading days between 1963 and 1993 and found that just 90 days generated 95 percent of market gains. That means if an investor missed an average of just three days a year, he or she would have missed out on nearly all the growth over 30 years.[3]

History has proven that no person, bank, or computer algorithm can accurately and consistently "time" the market. It's simply a fool's errand to even try.

Instead, asset allocation and diversification have proven to be the truest ways to manage risk and seek the most efficient return, especially if you are trying to limit your downside risk and are consistently taking income, as most of our clients are.

If you have already run a stress test on your investments to see how they would fare during a market downturn (and if you're a financial client of ours, you have) then our advice would be to sit and hold. Maybe get some popcorn and watch the circus—but don't sweat it. We don't believe that the market is going to crash, in either case.

But if you haven't run a stress test (which means you're not a client) then I can offer you a complimentary report of how your investments did in 2008. This information could be imperative.

In either event, don't let the media get you upset. All I can say is: Remember Brexit?

[2] The S&P 500 is an unmanaged composite index considered to be representative of the US stock market in general. Returns assume reinvestment of dividends but might not include taxes, fees, and other investment-related costs. Past performance is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly. For illustrative purposes only. Sources: Standard and Poor's, Franklin Templeton. All data are as of December 31, 2015.

[3] H. Nejat Seyhun, University of Michigan, "Stock Market Extremes and Portfolio Performance," 1994.

About J. Kevin Meaders

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Kevin Meaders graduated from Oglethorpe University in Atlanta with a double B.A. in Philosophy and Political Science, and then obtained a law degree from Georgia State University College of Law, focusing on estate planning and trust law. He has earned the designations of Certified Financial Planner (CFP®), Chartered Financial Consultant (ChFC) and Chartered Life Underwriter (CLU). He holds a General Securities Principal and Registered Representative registration and Investment Advisor Representative registration through Voya Financial Advisors (member SIPC).

About Magellan Planning Group

www.magellanplanning.com

Magellan Planning Group was established in 2000 to provide a service uniquely tailored to the needs of our affluent Atlanta community. We concentrate on *personalized* retirement planning through tri-disciplinary coordination:

- Financial planning with our Certified Financial Planner™ to prepare a retirement plan that takes into account your needs and expectations. We are a fee only asset management firm.

- Estate planning with our in-house Attorney-at-Law to determine and prepare the documents needed to minimize family liability and maximize privacy. (www.magellanlegal.com)

- Tax planning through a relationship with our in-house CPA to manage tax obligations throughout the year and prepare a tax return that takes into account current tax laws. (www.magellantax.com)

Our relationship doesn't begin and end with the preparation of a plan and the appropriate documents. We establish close personal relationships with our clients and their families and maintain those relationships through regular 'check-ups', market commentaries and educational Lunch & Learns.

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