



Empowered Future Report

Short term thoughts about long term matters

November 9, 2016

Quote of the Day:

*“Sooner or later everyone sits down to a banquet of consequences.” --
Robert Louis Stevenson*

Election Results and Impact

Well, I know that some of you are excited and some despondent and some probably just plain speechless. For those who attended our workshop a few weeks ago, you know that I was not enthusiastic about either of the major party candidates or their policies. In fact, I had a scorecard to simplify my assessment of them both on economic issues which was color-coded in green, yellow and red – green being good, yellow sort of neutral and red being bad. (I didn't make any comments on the other major issues as I was trying to relate the workshop directly to our portfolios – not that social issues or foreign policy don't matter, just that I was trying to narrow the scope of my commentary). At the risk of offending all sides, I was just candid in my scoring and so it was mostly covered in red for both Trump and Clinton. In my judgement, the American people were getting a banquet of economic ignorance.

Now that the votes are in, with Trump as President-elect and the GOP retaining both houses, I thought I'd write a note summarizing my views of how this might impact us and various sectors of the economy. To reiterate what I said at the workshop, I have no crystal ball and it's very difficult to project how elections will impact things in the short term. I do believe we'll continue to see increased volatility, especially with Trump now since he's viewed as a novice to elected office. Also, remember that while the media and our current culture focuses so much attention on this one office/person, we still have a constitution with crucial checks and balances. The path from -> this is what a candidate says to become a nominee -> altering that to win a general election -> now being the “dog that caught the car” -> whether they'll actually act on what they said -> will congress act on it -> can it get passed into law and upheld by the courts... was purposely meant by our founders to slow down/gum up the process...NOT to “get things done”. They feared enthusiastic politicians and democratic mobs in their zealotry to intrude on the individual rights of their fellow citizens.

Assuming Mr. Trump can get his agenda off the ground quickly, here are some potential consequences* to specific sectors:

- Infrastructure and defense contractors will probably do well given the promises to increase government spending in these areas. Again, while there may be a dire need for infrastructure improvements, I don't have confidence in central government allocating resources properly and so we may end up with more "bridges to nowhere". This can give a short-term illusion of solid business activity but often at the expense of longer term prosperity.
- Financials may do well since higher interest rates are likely coming. Even though the Fed has hinted at delaying a rate hike until after things settle down, there's a decent chance they'll resume small raises next month. Also, Trump has promised to reduce regulation and the financial sector has been hit hard over the last decade with a myriad of contradictory and arbitrary regulation.
- Depending on which specific area, healthcare may do well or come under pressure. If there is a "repeal and replace" of Obamacare and reduction in regulations, then innovation might resume so pharmaceuticals and device manufacturers could thrive. Hospital groups/managed care providers may not do as well.
- Technology could also do well due to expected M&A activity, cybersecurity concerns, cash repatriation and deployment.
- Given Trump's extreme anti-free trade rhetoric, exporting companies and those relying on exports may experience difficulty. This is an area to watch closely since what he says about trade is contrary to every economic principle that has given us incredible leaps in productivity, life enhancing technology, and greater standards of living across the board since the industrial revolution. But Trump ran on a populist platform, wanting to do away TPP – the Trans Pacific Partnership – a new trade bill negotiated with Asia. He also wants to get rid of NAFTA – the North American Free Trade Agreement with Canada and Mexico signed in 1994. Trump's advisors would do well to review the actual causes of the Great Depression which in large part started from escalating trade wars, tariffs, etc.
- Emerging markets are likely to be more volatile, given the uncertainty/change in policy. Asian markets in general and China in particular might have a tough go due to the anti-globalization sentiment. Caution is probably a good idea for European markets due to the

Italian referendum on Dec. 4th which proposes constitutional reforms. I haven't had a chance to really read that much about it but it looks to be in line with other geopolitical developments, unfortunately moving toward more nationalism/authoritarianism.

- I continue to believe that, while volatile, precious metals exposure is a good long term hedge against the massive monetary experiment that has been conducted over the last twenty years....more feasting on consequences comin' right up...

Regardless of how you voted, the last two weeks shows how difficult it is to predict how various markets might do in the short term or in response to such an event. Before the election, the major US market indexes were down nine days in a row on fears that the election might be slipping away from Hillary Clinton based on the FBI reopening the investigation of her emails. Then, on news of the FBI essentially backing off, the market stabilized on Monday and Tuesday. Taken together, those 11 days in the market might be taken to mean that the market favored Clinton, and as the election results came in Tuesday night, US and global stock market futures plummeted, down over 800 points at one point on Tuesday night...again seeming to confirm the assumption that the market would dive on a Trump victory.

But on Wednesday, the index rose 256 points, and again today, as I write this, it closed up another 218 points. The lesson to take from the last several days is NOT that markets do better under Republicans than under Democrats – the history of party control and correlation to market performance is quite mixed. No the real lesson is that short term, emotional reactions are mostly noise. However, contrary to many of our peers, that does not mean you throw up your hands and say “who knows, no one really knows anything”. Policy does matter and policy is, like it or not, a result of politics. What Trump and his administration do will indeed make a difference to our future wealth, both nominally and in real purchasing power. Our allocation decisions will be based, as much as we can, on the facts. Facts about what Trump and our Congress actually do and facts about the valuation metrics of the markets we're interested in.

Please feel free to contact us if you have questions or want to know more about our approach right now.

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