



Will the Trump Administration be **GREAT** for Your Finances?

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Agenda

- Brief Review of 2016
- 3 U.S. factors that will drive change
- 3 global factors that will drive change
- 3 economic variables to watch
- Managing change and uncertainty



Economist's Observation

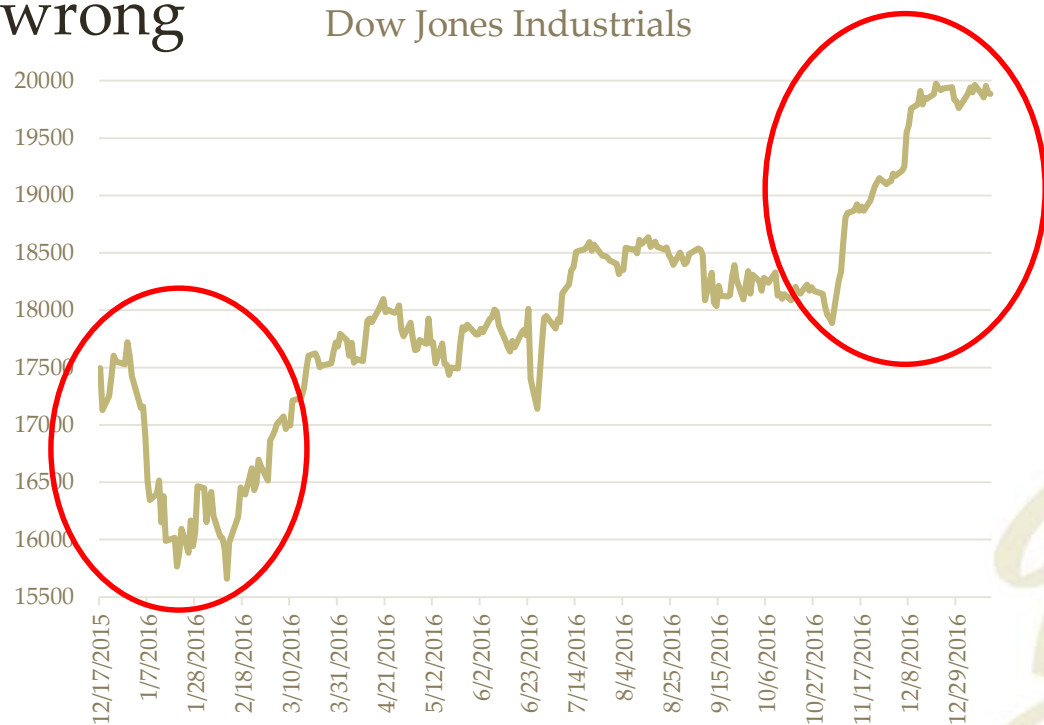
“Inviting an economist to address you at the beginning of every year means you are either optimists or masochists”

Joachim Fels



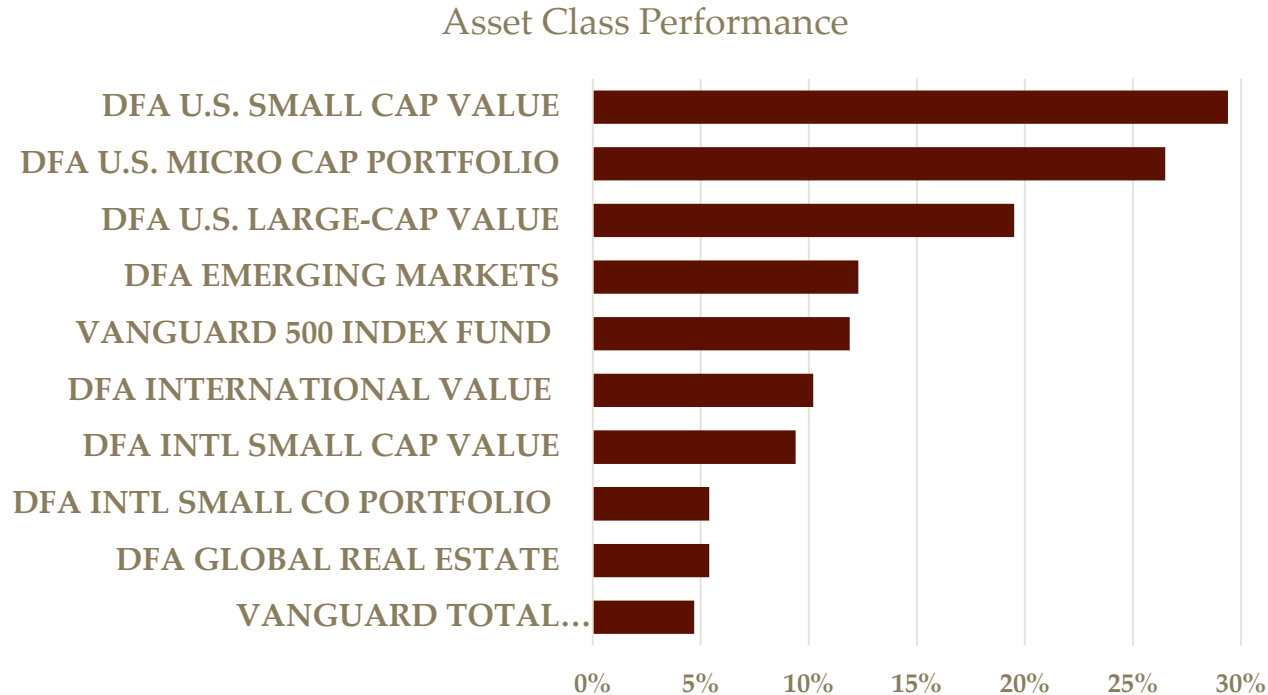
Stock Market in 2016

- Even if you'd known the election results, you'd have gotten the market wrong



Stock Market in 2016

- Small company and value stocks were the big winners in 2016



3 U.S. Factors That Will Drive Change

- The New Trump Administration
- Republicans about to control Congress and the White House
- Federal Reserve policy



How Change Will Arrive

- Public policy changes
 - Tax legislation
 - Fiscal policy
 - Trade policy
- Sentiment / “Animal Spirits”
- Tweets?



The Usual “Noise” Just Got Noisier

Dollar Sinks After Trump Says Its Value Is Too High

The dollar slid to a one-month low after

Toyota stock dips after Trump tweet on planned Mexico plant

China plays the adult as Trump attacks the system

China plays the adult as Trump attacks



This app will notify you if Trump tweets about a company you're invested in

CIA director says Trump crossed 'the line' by comparing CIA officers to Nazis



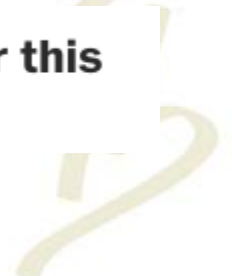
GM CEO: Won't change production plans despite Trump tweet

General Motors has no plans to change where it produces small cars

What Trump got wrong on Twitter this week

DAILY SHOT

WSJ's Daily Shot: Has the Trade War With China Already Begun?



Focus Instead on the Deep Regularities

- Human beings are fundamentally growth-seeking and resilient, as a consequence of which
- The U.S. and world economy are ultimately resilient and biased toward growth, thus
- The stock market, which represents ownership of the productive assets of the economy, is biased toward growth over the long run.
- Finally, the workings of the economy and markets are too complex and chaotic for short-term prediction.

And don't forget to breathe . . .



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Now let's compare tax plans

Proposal	Trump Plan	House GOP Plan
Individual Tax Rates	12% / 25% / 33%	12% / 25% / 33%
Capital Gains/Div Rates	0% / 15% / 20%	6% / 12.5% / 16.5%
Standard Deduction	\$15,000 / \$30,000	\$12,000 / \$18,000 / \$24,000
Itemized Deductions	Capped at \$100K / \$200K	Mortg. Int. & Charitable
Alternative Minimum Tax	Repeal	Repeal
Corporate Tax Rate	15%	20%
Estate Tax	Repeal, Step-up in cost basis to \$10 million	Repeal




Social Security Proposals

- Background:
 - SS Trust Fund is projected to be used up by 2034, after which, benefits would be reduced 21%
 - When this was about to happen in 1983, the fix was to increase Full Retirement Age (FRA) from 65 to 67
 - FRA will be 67 for those turning 62 in 2023
- Rep. Sam Johnson, Chair of House Ways & Means has proposed:
 - For those turning 62 in 2023 and later, FRA increases 3 mo's/year until FRA has gone from 67 to 69 in 2030
 - Age for mandatory withdrawals goes from 70 to 72 on same schedule
 - COLA calculation is less generous, no COLA for wealthier recipients

Medicare Proposals

- House Republicans propose a “Premium Support” program in which Medicare recipients receive vouchers to buy private insurance
- Current Medicare “fee-for-service” plan would continue to be an option and/or grandfathered for current recipients
- One-third of the 57 million Medicare recipients are already in private Medicare Advantage plans, which have to be subsidized. The fear is that the higher costs of private plans would come out of patients’ pockets and that premium support would not keep up with medical inflation
- Little Senate support. Trump: changing Medicare is a “death wish”

Fiscal Policy: Stimulus Proposals

- Lower tax rates can stimulate the economy
 - Proposed infrastructure spending of up to \$1 trillion would also stimulate economy but might accelerate inflation rise
 - Unclear how much of the infrastructure program will be federal spending and how much in the form of tax credits
 - Unlikely to be taken up by Congress until the latter half of 2017
 - May prompt the Federal Reserve to accelerate rate increases
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3 Global Factors That Will Drive Change

- The Rise of Populism
 - Are France and Germany next?
- BREXIT
 - UK is the world's 5th largest economy
- Threats to International Trade
 - Tariffs, tax policy, and renegotiation



3 Economic Variables to Watch

■ Inflation

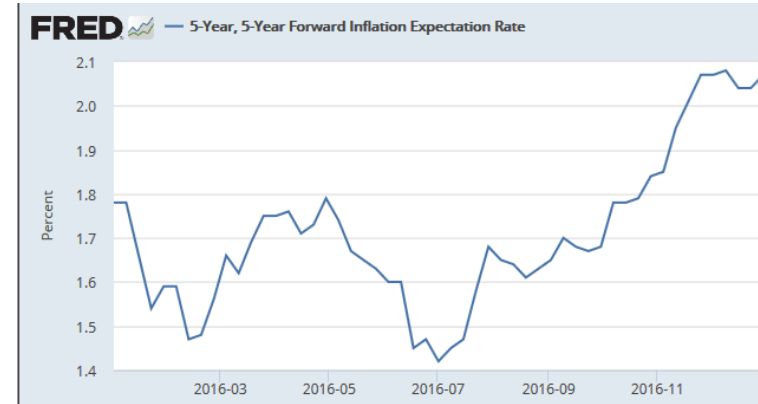
- 5 year expectations rising

■ Interest rates

- Evolving Federal Reserve policies/market

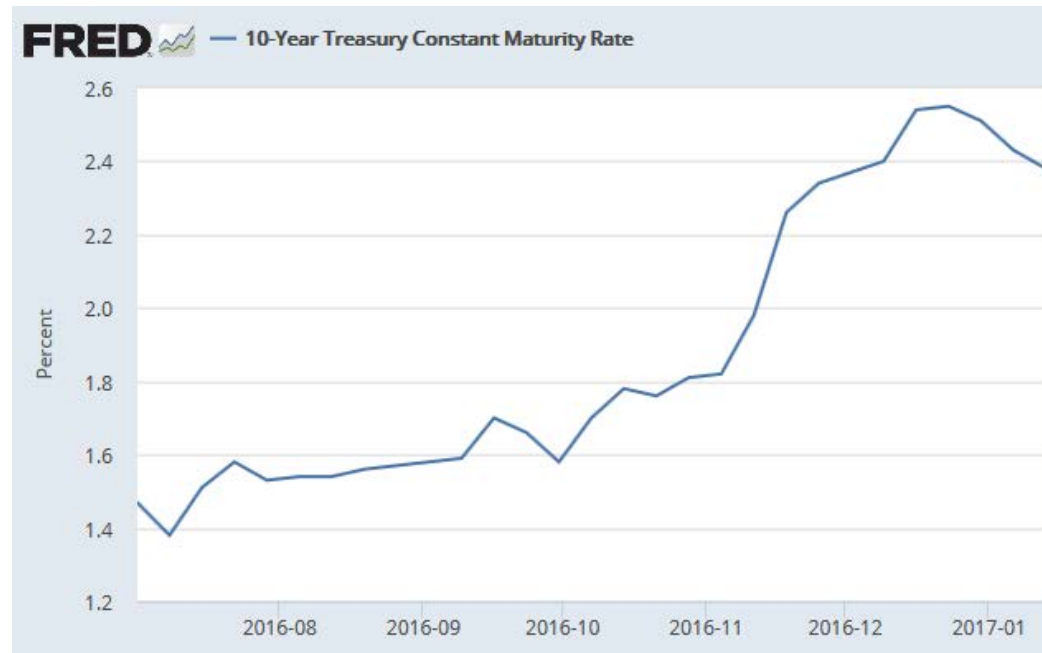
■ Economic growth rates

- What's the speed limit?



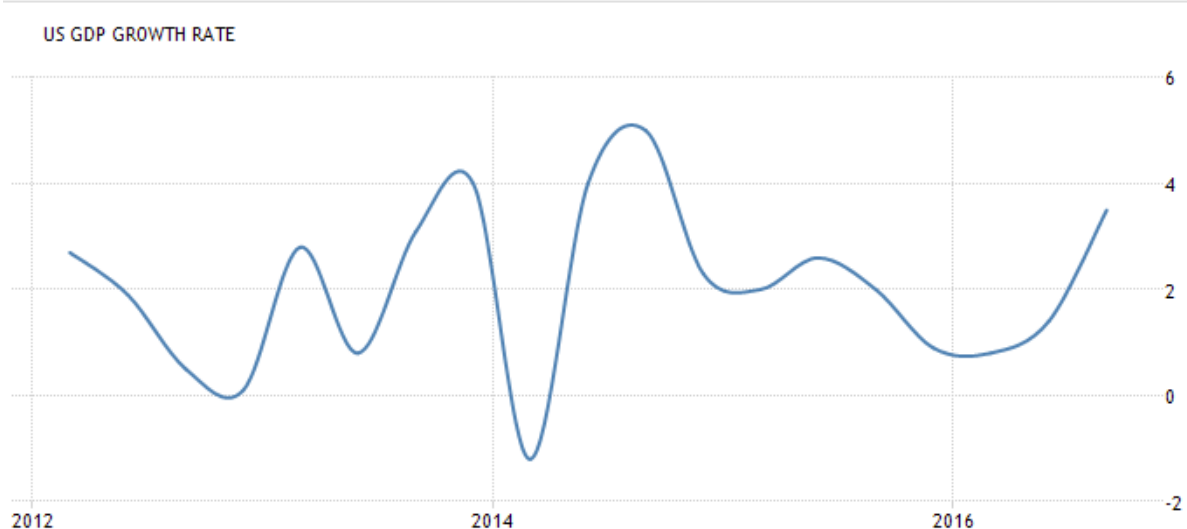
Interest Rates and Fed Policy

- The Fed has suggested three more rate hikes in 2017
- Short-term interest rates are directly controlled by the Fed
- Long-term rates not so much, except during periods of Quantitative Easing or QE
- Yield on 10 year Treasury went from 1.4% to 2.4% in second half of last year



Economic Growth

- Gross Domestic Product (GDP) growth rate rose to 3.5% in Q3
- Has averaged about 2% over the past five years
- President-elect Trump's proposed 4% is highly unlikely



Strategic Positioning

- Proposition: Most of the time, presidents have less impact on the economy than generally believed. They deserve less credit when things go well and less blame when things go badly.
- Exceptions: During extreme events, like the Great Recession, extraordinary policy prescriptions can have a measurable impact.
- Case in Point: George W. Bush, Hank Paulson, Barack Obama, Timothy Geithner, Ben Bernanke



Strategic Positioning

- Public policy changes: Taxes
 - Watchful waiting and adapt in real time
 - Don't make any irrevocable moves that are purely tax-driven
 - Continue to defer income and accelerate deductions until and if new tax laws are adopted



Strategic Positioning

- Public policy changes: Trade policies
 - Any major changes will impact countries, regions, and exchange rates differently
 - Broad diversification is essential
 - Diversify across countries/regions
 - Diversify across industries
 - Diversify currency exposure (be dollar-diversified)



Strategic Positioning


- Monetary policy & Interest Rates
 - Rising rates in the U.S. will continue, though Fed may not hit its target of 3 increases in 2017
 - Focus on short- to intermediate-maturity bonds, high quality, globally diversified
 - Blend of short- and intermediate-maturities may vary for “spending” vs “non-spending” portfolios
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Strategic Positioning

- Inflation and Interest Rates
 - Higher inflation, within limits, can be good for corporate profits (pricing power)
 - Higher inflation, within limits, can be good for economic growth (encourages consumption)
 - Rising interest rates means its time to buy and/or refi if you've been on the fence



Conclusions

- Presidents have less impact on the economy than the majority of growth-seeking human beings
 - Presidents can still set the tone for sentiment and “animal spirits” in the short run, with potential for higher volatility
 - It’s better to harness the deep regularities in the economy and markets than surf the “noise”
 - Adopt an attitude of resilience and flexibility in order to adapt to changes as they occur; don’t over-commit to one version of the future
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Thank you!

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