Quarterly Newsletter - January 2017

What to make of Donald Trump?

This is a complex question ? given that equity markets are thrilled by the prospect of a Trump Presidency while at the same time many Americans are horrified or frightened by the thought.

Markets are rising because consumer confidence is rising. People are now more confident than they were before that their incomes will be higher in the future. This confidence means people are more willing to spend. This increased willingness to spend means more sales and profits for corporations and thus a rising stock market.

We are not in the business of making stock market or electoral predictions. The enclosed reports show you had a very good investment year with annual returns in the 9-11% range depending on your percentage in stocks vs. bonds. High returns were provided by both large and small U.S. stocks. This is remarkable, especially given that U.S. markets started the year with one of the worst opening months in market history. The turnaround was capped off by the election of Trump. This quick shift shows once again that markets are very hard to predict. No one predicted the Trump victory much less this huge market reaction.

We are pretty sure you see where we are going with this but let's go there anyway. Look at your twelve-month asset class performance report. U.S. large stocks at 13% or better. U.S. small at 26%. How is a person supposed to react to this? On the one hand with happiness. These big numbers were the fuel that powered your portfolio to a very nice overall annual return. On the other hand, perhaps with a bit of regret ? regret that you did not have ALL your money in the 26% small cap stocks, or at least all in the U.S. Forget those foreign markets ? let's put all our money in the U.S.! That's the feeling ? right?

Before making that move, consider our reports just three months ago at the end of the third quarter. Emerging markets and REITs were the leaders of the pack with returns over 19%. Time to put everything in Emerging and REITs, right?! Except in the fourth quarter the MSCI Emerging Markets Index was down 4.2% and the Dow Jones REIT Index was down 2.5%.

Moving everything to the U.S. is a bet that the Trump presidency will be successful. Since we don't make bets with our clients' portfolios, it is not a bet we are willing to make, good or bad. Our job is to maintain a disciplined process. Trump's election has increased U.S. consumer confidence to the highest levels since 2001. With this confidence filling the sails the U.S. equity markets are on a rip. And we have consistently reacted by rebalancing ? selling the red hot U.S. small stocks and buying international.

We are concerned about the course of political and economic events in this country, not so much in the immediate future as over the intermediate future ? the next four to six years. How will Trump avoid high inflation with his program of lower taxes and yet also higher military and domestic spending? What will he do when he is faced with intractable foreign or domestic opposition? How will he react to actual adversity? He has demonstrated a thin skin and impulsiveness, qualities not often associated with successful presidents. His support in Congress is already under stress. He seems to be a blend of Andrew Jackson and Teddy Roosevelt. We hope the Roosevelt Trump appears and not the Jackson Trump. We do not wish to stake our client's futures that all will be well ? and we will therefore continue as we always have ? with diversification and rebalancing.

We own bonds as well as stocks, growth stocks as well as value stocks, U.S stocks as well as international stocks. We are not aiming to hit the ball out of the park. Staying in the game with competitive returns and relatively low volatility, all hallmarks of diversification, is the objective.

2016 was a tale of two markets ? the U.S. and everyone else. U.S. small cap stocks have gone up a great deal, followed by U.S. large and then emerging markets. International stocks have actually done quite well when measured in their own currencies ? but the very strong dollar dampened their returns in dollar terms. We will keep rebalancing into the international markets while the super strong dollar allows us to buy these assets at low prices. And we are pleased to do so. Markets are volatile. The Trump optimism will eventually run its course and markets will reverse. They always have and they will again.

We could go on but we are out of space and breath. So lastly, we are proud to announce that Richard Seeley has attained the CERTIFIED FINANCIAL PLANNER? designation. This is a real distinction with a very difficult exam at the end of more than two years of grinding study. Congratulations to Richard.

And hang on to your hats. Wild times are ahead.

Jim John Richard and Ryan