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The Election is Over; Now What?

A few days before November 8th, Ben and I were attempting to reassure some of our clients, both verbally and via email, that markets do not necessarily spiral into a sharp decline immediately after, or as the result of, an election. Uncertainty has always created a jittery stock market. This race was especially contentious and probably created as much anxiety as any Presidential contest we have previously seen, but often the anticipation of an event is worse than the event itself.

In my years in this business I have observed several Presidential contests. Despite the conflicts, disparagement, and acrimony involved while the race is ongoing, the vast majority of us ultimately accept the results when the contest is finally decided. We are not unaware of the demonstrations of those angry and disheartened voters for whom the race went the wrong way, but we all know that this will eventually fade, and we shall move on. One of the benefits of living in this marvelous country of over three hundred million people is that the transfer of power is so seamless. This is an immense positive.

In the early morning hours of November 9th when it became evident that Trump was victorious, DOW futures indicated the stock market would open over 700 points lower. By the end of that trading day, the Dow was up 250 points. The market indices continued to advance over the next few days, but stocks in certain industries did not do well. Banks were strong; technologies weak. There was still a, "what do we do now?" question. What companies and industries are best to own?

Our job is not to be judgmental or critical, but instead to attempt to be analytical. How are your investments, estate planning, and your financial future affected by the changes in government policy? Changes in the tax structure will be important, and there will almost certainly be some of these.

Part of Trump's campaign rhetoric was to bring back manufacturing jobs. This may prove very difficult. Since 2000, manufacturing jobs in the US have declined by about five million according to money.cnn.com. This is unprecedented in US history; worse than the 1980s, and a worse rate than the great depression. However, much of this was caused by technology, not by outsourcing. It does not necessarily mean these jobs have moved to other countries. Workers are being replaced by computers, robots and other machines that are both more efficient and less expensive.

While the manufacturing segment of employment is suffering, the latest overall job report showed 4.9% unemployment. This is down from 9.9% in 2010, so 4.9 % while not perfect, is not horrible.

Regarding income taxes, there are currently 7 tax brackets. Trump wants to reduce this to 3 brackets: 12%, 25%, and the highest, 33% (currently, people in the highest tax bracket pay 39.6%). Under Trump's new structure, people earning less than $29,000 would pay zero tax.

Trump also wants to lower the corporate tax rate. The corporate tax rate in the United States at 35% is among the highest in the world. The rate in Germany is 29.68%, China's is 25%, and the UK's corporate tax rate is 20%. Trump wants to see this US rate dropped to 15%. It is unlikely he will achieve that goal, but, with a Republican congress, somewhere in the 25% range may be achievable. This could be a very serious positive for U S corporations and for the stock market.

As expected, Trump's approach to lower taxes has drawn criticism, mainly to the effect that it would significantly lower the government's revenues. On the other hand, the theory of lower taxes is that capital which is not constrained by heavy taxation will flow more freely through the economy and entrepreneurs will be far more inclined to create new businesses and hire more people. Companies which have moved some of their operations offshore would be far less inclined to do so. All of this could create an increasing tax base for the Government.

Even if some of the fears about the change in government prove true, the fact is that the health of the American economy has always shown itself to be impervious, even to inept and ineffectual interference by government. We remain a very strong country with many creative and industrious people.

We continue to stay very positive on the stock market. As we have said before, there is an enormous amount of money on the sidelines. Two weeks ago, Blackrock estimated this figure to be 50 trillion dollars worldwide; nearly three-fourths of it is earning less than ½% interest. Why is it not now invested? People are scared. Every great buying opportunity has presented itself when the majority is fearful.

Coming back to the question posed earlier in this letter, "what companies and industries are best to own?" At this early stage, post-election, we don't think anyone can accurately arrive at the answer. Trying to outguess short-term market swings is almost always a losing game.

It is our goal to increase your capital over time, so that it will become a source of income for you in the future. The steady accumulation and buildup of an account does not occur overnight. It is built gradually by accretion, which is why we carefully construct our portfolios to put a long-term strategy in place.

Sincerely,

Mike Ben

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