

December 29, 2016



Clients,

The most dramatic public event of the quarter was the election of a Republican majority in Congress and the election of Donald Trump to the presidency (I'm not sure to what extent he is Republican). Should the rise in the S&P 500 over the month following the election be attributed to Trump? Dr. James Paulsen of WellsCap Management sees it as continuation of a trend beginning in July. The increase was mostly in fossil fuels, which should do better under Trump's perspectives, and financials, which look forward to less regulation.

Over time, markets are generally more impervious to political events than normally perceived. While news often has a short-term impact, the longer-term impacts remain to be seen. Historical data reveal that both the economy and markets do better when the Democrats are in control. At the same time, I believe both institutional and lay investors are predominately Republican, at least it would appear that way at Money Shows. Optimism breeds its own positive results. We may think of market patterns as having external causes such as the market being a dependent variable impacted by independent variables. However to a significant extent, markets are simultaneously the dependent and independent variable. Markets are like a dog chasing its tail in what George Soros calls reflexivity.

One impact I do foresee is that bio-tech, medical devices and medically related providers are likely to be detrimentally affected if parts of Obamacare, Medicaid and perhaps Medicare are unwound. While consumer access to medical services dominates the discourse, along with public costs, the money doesn't go to the consumer. It goes to medical providers, suppliers and plan administrators. I don't see how there would be anything but a sharp decline in medically related revenues, and am in the process of selling medically related stocks.

What I find very interesting is that the A.M.A. came out with an endorsement for Dr. Tom Price as Secretary of Health and Human Services. His identification with the Republican mantra about medically related government programs, and his identification with the A.M.A. and as a member of its House of Delegates, trumps any rational analysis of the economic impact on physicians and other parts of the medical-industrial complex. The physicians are no different than the Appalachians who voted for Trump and are now very fearful of losing access to necessary medical services. It is a lesson for each of us regarding the dangers of letting our alliances and identifications get in the way of rational judgment when it comes to decisions.

On an entirely different note, we have been personally involved in doing some estate planning. We have created a Charitable Remainder Unitrust (CRUT) which provides a significant current income tax deduction through funding with appreciated stocks. Charities specified in an addendum receive the funds when the trust is dissolved after both Jan and I are gone. Taking a large deduction in some years and using the standard deduction afterwards enables a greater overall deduction. Moving funds out of my IRA lowers future Required Minimum Distributions. The CRUT provides us a protected income stream similar to a pension or annuity. I'm also setting up See-Through Trusts as secondary Roth IRA beneficiaries for each of our grandchildren. The intent is to provide a protected source of tax-free income over the course of their remaining actuarial lifetimes. We are also setting up a Revocable Living Trust. I've learned a lot working with various lawyers and reading about IRS regulations that were previously only vaguely familiar to me. There are lots of ins and outs to it all. Let me know if you have an interest in exploring how any of this might be useful for you.

Comments on portfolios and returns are in your individual reports or the overall Performance Summary.

Best wishes for the new year.

Sincerely,

Lee

An alternative to mutual funds.

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