

# **A Great Year So Far, But Where Do We Go from Here...**

**By Bob Deitrick and Steven Morgan**

**Tuesday, October 17<sup>th</sup>, 2017**

*The U.S. economy is performing well and this year has been very favorable for stocks as we predicted it would. Consumer confidence came in last Friday at an a new high of 101.1 – better than the 95-handle expected. Earnings from the banks have been mixed, but American retail sales bounced to a 2.5 year high in September. The market closed at another record high today, touching 23,000 for the first time, and the VIX has been hovering near all-time lows this year conveying that this market is stable. Earnings have been strong this year as well. The question we are asking is how long can this trend continue given the ongoing drama in Washington and around the world?*

*President Trump announced Friday he is decertifying the Iran Nuclear deal and he is throwing it back to Congress, which puts a greater burden on a Congress that has been ineffectual this year. Our European partners are concerned about the implications of this reversal and have warned that this could further complicate tensions with North Korea if the U.S. pulls out of the deal.*

*Our question is simply why do this now? Congress has enough on its plate. California is burning and needs our assistance. Texas, Florida, Puerto Rico, and the U.S. Virgin Islands were decimated by Cat 5 hurricanes, and Puerto Rico and the USVI are still in need of food, water, and electricity. Steven and I have friends in St Croix whom we have not been able to communicate with in 3 weeks. We recently had the worst mass shooting in U.S. history with almost 600 people shot and killed in Las Vegas. The concerns about North Korea have been intensified by the bellicose talk on both sides.*

*We are entering the era of Trump Doctrine **big-power nationalism**. We believe it is paramount to keep our nation safe and we hope a geo-political misstep can be averted; however, the probability of an accident occurring today in North Korea or the Persian Gulf is elevated. We have contained North Korea for 60 years, and found an “off ramp” to avoid conflict with Iran historically. Having said that, **Nicholas Kristoff of the New York Times said on his trip last week to North Korea: “I have been covering North Korea on and off since the 1980’s and this five-day trip has left me more alarmed than ever about the risks of a catastrophic confrontation.”** At the end of the day, we hope that calmer heads prevail.*

*Having expressed our concerns, we remain optimistic about this quarter. We like the FAANG (Facebook, Apple, Amazon, Netflix, and Google) stocks going into year-end as we have all year. These stocks historically perform well in odd years. **However, having made it through year 8 of this bull cycle, and given the concerns above, we intend to move to a more defensive posture this fall going into 2018. The defensive alternatives we are considering include gold, treasuries, oil, financials, healthcare, utilities, and consumer defensives. We believe this to be a sagacious move.***

*As far as tax reform is concerned, despite recent optimism yesterday, we suspect this will not happen in 2017. **We were very optimistic in January when the Trump administration and Congress promised three legislative milestones in 2017: Health care repeal with replacement by March, Tax Reform in August, and an Infrastructure bill by Christmas.** Today, it appears no major legislation may pass this year. Congress has 24 working days remaining in 2017 and they still need to pass a budget, approve 2018 spending, keep the government running, deal with DACA and now they must deal with the Iran deal as well.*

*Tax reform is never easy; however, this time the backdrop is far more uncertain than 1986:*

- *In 1986, President Reagan governed with an approval rating of 60 percent, a Republican Senate, and a Democratic House. Reagan had bipartisan support from Democratic Senator Bill Bradley who worked cooperatively with Republican Congressman Jack Kemp. Reagan's team paved the way with years of advocacy and produced real tax reform. The consensus was that lower tax rates applied to a broader tax base would make the economy grow and it worked...*
- *The Tax Simplification Act of 1986 cut taxes on individuals, while raising them an equivalent amount on corporations. It taxed laborers at lower rates than shareholders. The proposed GOP/Trump tax bill lowers taxes on those making more than \$250K while most Americans will see little benefit. It repeals the estate tax and the alt-min tax which favors the most-wealthy.*
- *The current tax plan by the White House enjoys none of these advantages.*
- *Goldman Sachs analysts put the odds that tax reform will collapse at 1 in 3, and recent geopolitical developments make those odds more problematic.*
- *Many economists state this tax plan will increase the budget deficit by \$1.5 to \$2 trillion over 10 years. That may be a deal breaker for Senators like Bob Corker, whose vote is essential.*
- *Trump suffers from a 38 percent approval rating according to RCP\*. Congress wants to pass this plan using reconciliation with Republican votes while the President wages fierce skirmishes within his own party. Getting 50 votes in the Senate will be a challenge.*

*Steven and I are optimists. We predicted this bull cycle in May of 2009 and have been assertively invested since that time. However, we are concerned about what we see today. We are watching these events unfold closely on your behalf, and **we will gradually move to more defensive positions to protect your interest - beginning this fall. If you have questions, please reach out to us at any time. Polaris Financial Partners will be hosting our "Year End" Seminars at Eddies on:***

- **November 8<sup>th</sup> is a dinner starting at 6:15 p.m. at Eddie Merlots**
- **November 10<sup>th</sup> is a luncheon at noon at Eddie Merlots.**
- **RSVP to Steven Morgan at: 614.901.3400. Seating is limited and the dinner seminar is almost at full capacity.**



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*\*[https://realclearpolitics.com/epolls/other/president\\_trump\\_job\\_approval-6179.html#](https://realclearpolitics.com/epolls/other/president_trump_job_approval-6179.html#)!*