

What Happens Next After the Surprise Trump Victory?

***By Bob Deitrick
December 5th, 2016***

After the most hotly contested Presidential Election in our nation's history, we at Polaris Financial have been one of the few advisors to remain consistently bullish all year long. Despite the uncertainty post-election, we reiterate our positive views, today, once again. Although Hillary Clinton won the popular vote margin by 2.1%, and she won the popular vote by over 2.5 million votes, Clinton lost the general election in the Electoral College. Trump won by fewer than 100K votes in the states of Pennsylvania, Michigan, and Wisconsin – a region that was supposed to have been Clinton's firewall. At the end of the day, the Clinton team played the Coach Jim Tressel strategy of sitting on their lead instead of winding it up as Coach Urban Meyer would likely have done. The Clinton folks played to lose, and with all due respect, their strategy worked. Consequently, Donald Trump is our President-Elect. We support our President and we at PFP hope and pray that he is a success for our country, our clients and for all Americans moving forward...

How will President Trump govern? That is the question no one can answer presently and we don't have our arms around that yet either; albeit, we will know more once Trump's cabinet is in place and he has delivered his first State of the Union address. Trump will likely be an inflation and de-regulation president meaning he may be a hybrid of Eisenhower and Reagan. As we stated at our seminar a month ago - the two longest bull markets in history were preceded by Republican revolutions. Eisenhower increased infrastructure spending by introducing the Interstate Highway System Bill of 1956 and Reagan brought tax cuts and de-regulation through ERTA and TEFRA.

Trump's policies will likely lead to higher inflation and rising interest rates which will put business and consumer behavior on a longer-term spending and investment trajectory. Tom Lee of Fundstrat Global Advisors estimates that "if fixed investment percent of GDP rises from 23.5 percent to 27 percent under Trump (as it did under Eisenhower and Reagan), this will unleash an incremental \$700 billion of new investment spending annually. Over a decade, that could lead to an increase in GDP of \$3.5 trillion," per Tom Lee.

If Trump's big spending and infrastructure projects come to fruition, to the extent he can get them through Congress next year, this will likely lead to higher interest rates - reversing a \$2 trillion rotation out of U.S. equities over the past 10 years. We predict inflows to domestic stocks will return by \$400 billion per year over the next 10 years. We also believe that an infrastructure bill like this could be the catalyst which keeps the momentum of the stock market moving forward.

Our recommendation is that clients focus on the past laggards and contrarian plays over the past few years including, but not limited to, small-cap and value stocks, transports, and financials to name a few. We do not recommend consensus trades like Health care and cyclicals which will be daunted after the Trump win. Instead, we recommend staying focused on groups that have lagged over the last 7 years including energy, basic materials, mining, steel, telecom, equipment, industrials, and some tech sectors. Financials have rallied post-election, but we point out this group has underperformed the market since 2009.

This Trump rally could live on for some time, per Fundstrat's Tom Lee. We concur with Tom. President-elect Donald Trump's term could usher in a major bull cycle akin to those preceded by the administrations of Presidents Dwight Eisenhower and Ronald Reagan. Time will tell. We are watching events closely and will keep you abreast of events as they develop.

The markets have been broadly positive since Trump's win. Post-Election Day, the S&P 500 has gained 4 percent and the Nasdaq and Dow Jones industrial average have climbed 5 percent, with the Dow breaking through 19,200 for the first time today, Monday, December 5th.

Today, we urge clients to remain calm and to consider the notion of contrarian investing as a strategy. We remain cautious, yet optimistic moving forward.

Also, please RSVP to Steven for our Holiday/Christmas Party which will be held Sunday Evening, December 18th at the Polaris Hilton Grand Ballroom. The reception and bar open at 5:00 p.m. and dinner will begin at 6:30 p.m. Phil Dirt and the Dozers will perform in tandem with the Olentangy Orange High Choir. Get your pics taken with Santa and Mrs. Claus and their flying elves who will be there as well. We look forward to seeing you on the 18th! RSVP to PFP: 614.901.3400