MONTHLY
NEWSLETTER

The Advisor

JANUARY
2017

I am happy to present this month's market commentary from our Investment Team. The goal is to give our clients and friends a simple way to see everything they need to know about the financial markets on a weekly basis, in 5 minutes or less. After all, investing should be simple, not complicated.

TRUMP RALLY AND THE EFFECTS HE HAS HAD ON THE MARKETS

On November 8, 2016, University of Pennsylvania finance professor Jeremy Siegel told CNBC "I wouldn’t be surprised to see 1,000 points on the Dow,” meaning a 1,000 point drop resulting from a Trump win. "Trading in S&P 500 futures contracts actually had to be halted overnight after plunging more than five percent when it became clear that the real estate billionaire and reality TV star would become the 45th president of the United States," said Time Magazine.

The November 9, 2016 Time article went on to say "The Brexit result was a real shock and created instability in the U.K.,” said Green. “But this is a far bigger deal as this creates instability on a much wider, international scale,” quoting Nigel Green, CEO of the deVere Group; a financial consulting firm.

The article, titled: "The Dow Could Fall 1,000 Points After Trump’s Upset," reflected the hysteria of many on Wall Street where Hillary Clinton was the darling of big investment banks. Trumps win was seen as a catalyst for instability, a condition that is poisonous for the stock market. But, what really happened?

Policy Proposals

Trump's policies, stated on the campaign trail, are friendly to American business. Those initiatives include putting less burdensome regulations on corporations, spending on infrastructure, reducing the corporate income tax and creating incentives for keeping jobs in the U.S. In the hysteria leading up to the election, and following the results, many of the prognosticators had missed what was obvious. A business-friendly president should be a catalyst for a positive movement in the markets; not the other way around.

By December 7, less than a month post-election, the Dow was up over 1,200 points. Quite a contradiction to the naysayers. If investors had listened to the dismal rhetoric, coming from many of these pundits, they would have sold off ahead of an impressive rally. There is a lesson to be learned.

By December 22, the actual increase amounted to a $1.8 trillion paper profit. Yet, according to USA Today, only 52 percent of Americans participated in the gains. That number is based on a poll taken in April 2016 of those who were invested in the market. At that time, this represented the lowest stock ownership rate in 19 years.

There is a difference between investment commentary, based on technical or fundamental indicators, and basing

commentary on a simple dislike of a politician. This clouds the objectivity of a person whose comments can move the market. The rally was based on market psychology and optimism that resulted from policy changes articulated during the campaign. Policies that are business-friendly and represent an economic stimulus in nature, could potentially spur the markets.

Many investors left the market after the financial crisis. Stock market participation peaked in 2007 at 65 percent. With a government that is more friendly to business, time will only tell if investors will be rewarded in this new year and return to the market.

The combination of slow economic growth in recent years, combined with the sour taste left over from the stock market in 2008, may mean that fewer investors will participate in any additional rally, unless the new president can convince them otherwise.

By November 22, in a CNBC interview, Professor Siegel conceded of the stock market's surge; "it's a hundred percent Trump as a rally."

FEDS FINALLY RAISED RATES; WHAT DOES THAT MEAN?

After much speculation, that started more than a year ago, the Federal Reserve has finally increased the federal funds rate on December 14, 2016. The Fed's chairwoman, Janet Yellen, had stated in 2015 that there would have to be real improvement in the unemployment numbers, and economic growth, before the central bank would take any action. But, in late 2015, the Fed was projecting four increases during 2016, with only this recent increase actually materializing.

The increase in their benchmark interest rate amounted to .25 percent. They also raised their target for short-term interest rates, putting them in a range of a half to .75 percent. The rate increase was only the second one in a decade; a significant event given the recent history of interest rates.

The Fed's chair, Yellen, said that economic growth had picked up from the stagnant numbers in recent years. She was optimistic about the economy in the near-term. With improvements in the economy can come inflation, so the Fed may continue on this course.

The educated guesses, by financial commentators, at the Fed's interest rate actions were not really anchored in the Fed's own previous statements about employment numbers and inflation. Despite that, the predictions early in 2016, impacted the markets and investment decisions. Yet, the job numbers and lack of inflation, were not reflecting the kind of stimulus required to make the central bank act as frequently as thought. In the new year, conditions may be different.

A Low-Rate Environment

Over the past seven years, GDP has not hit 3 percent. There has been no real signs of inflation. Real unemployment, reflected in the E6 unemployment figure, was always too high to warrant an interest rate increase. While the prognosticators were certain that one was on the horizon, the Fed was reviewing numbers that led to inaction. The time just wasn't right.

As 2016 wound up, and the new year begins with a suggestion of economic stimulus and growth, and the

Fed's position may change considerably. The Fed is now projecting three or more increases for 2017, an increase from their last prediction in September. Economic growth for 2016 is projected to only be approximately 1.9 percent. The Fed predicts a higher rate of growth for 2017.

The stock market's rally was interrupted by the rate increase announcement and was down more than 100 points the same day. The increase makes the cost of borrowing for consumers and businesses more expensive. The increase may signal more frequent and larger increases with the economic stimulus believed to be introduced by the new administration. The Fed's anticipation of more rate increases also impacted bond holders, who have dumped bonds, pushing up yields.

The Fed had dropped rates to zero in 2008, during the financial crisis. But with more economic stimulus in 2017 and beyond, including consumer spending, inflation will creep back into the picture and rate increases won't be far behind. Another spark for inflation would be a brighter jobs picture and tighter labor market, increasing wages. Mortgages could be above 4.5 percent by the end of 2017.

The Advisor

Disclaimer: Investment Advisory Services offered through Retirement Wealth Advisors, (RWA) a Registered Investment Advisor. Amber Nabity and RWA are not affiliated. Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Past performance does not guarantee future results. Consult your financial professional before making any investment decision.

This information is designed to provide general information on the subjects covered. It is not, however, intended to provide specific legal or tax advice and cannot be used to avoid tax penalties or to promote, market, or recommend any tax plan or arrangement. Please note that Physician Investment Advisors and its affiliates do not give legal or tax advice. You are encouraged to consult your tax advisor or attorney.

Investment Advisory Services offered through Physician Investment Advisors, LLC. Physician Investment Advisors, LLCâ€™s outgoing and incoming e-mails are electronically archived and subject to review and/or disclosure to someone other than the recipient. We cannot accept requests for securities transactions or other similar instructions through e-mail.

About the Author

K Richard Douglas has worked in the financial services industry for 26 years, with an additional 10 writing about financial and economic topics. He’s a former series 9, 10, and 26 registered principal and series 6, 7, and 63 registered representative. Richard has held many financial service industry designations, especially in the retirement planning and compliance mechanism areas.