

John Dessauer Investments, Inc.

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John Dessauer's market review and update as of Wednesday November 16, 2016

The political pollsters were wrong. The stock market pessimists were wrong. And the economists who predicted an economic disaster because Donald Trump will be president will also be wrong. The Republicans hold all three branches of the federal government for the first time since the 1870s. Argus Research has pointed out that both the economy and stock market have done best when the Republicans controlled two of the three branches. There is no useful historical evidence about how both do when Republicans control all three branches. However, odds are that major changes are coming soon. And the changes will be positive for economic growth, jobs and the stock market.

Charles Krauthammer put it this way in his editorial last Sunday: “Nonetheless, this election was not just about the social/economic divide. It was also about the ideological divide between left and right. The most overlooked factor in the election is the continuing deep and widespread dissatisfaction with Obamaism.”

“The reason is no mystery. The problem was never with Obama himself, but with his policies.”

Richard Hoey, chief economist at BNY Mellon Wealth Management talked about the Obama policies in a post-election conference call. He described Obamaism as a long term massive shift in decision making away from the private sector to the Obama

government. I find that an enlightening description. Obama made great strides in centralizing control of key parts of business and everyday life. It made no difference to his administration that all previous attempts at centralization - from Soviet communism to Venezuela's socialism - totally failed. His signature legislation, Obamacare is, likewise and for the same reasons, fast becoming a financial disaster. Health insurance is just one of the areas where Obama took the decision making power away from the private sector. He did the same with banking through the Dodd-Frank legislation. He used a landslide of executive orders to control almost every aspect of day-to-day business management.

The political result has been an unprecedented shift in power away from Democrats to Republicans. It is clear that there now will be a massive shift in decision making power in the opposite direction, away from the Federal Government, back to the private sector.

Questions have been raised about what are Trump's policies. Richard Hoey made another astute observation. He said, so far Trump has listed his priorities but not provided the policies to implement them. Once inaugurated Trump will have to engage the Republicans in the Senate and House to develop the policies needed to achieve his priorities.

From his critics we already know that spending to improve the nation's infrastructure is coming. And it will be done in partnership with the private sector. Reporters at the *Washington Post* are already complaining that tolls and fees collected from infrastructure will be going to private companies. And that tax credit proposals would benefit the top 1%. Next, I expect to read that the Trump administration is adding

to the nation's debt. However, borrowing in a sensible way to improve airports or repair bridges is far different from borrowing to finance everyday spending. The Trump administration will target wasteful spending.

We also know that Trump has three goals with tax reform: 1) Simplify the code, 2) Broaden the tax base, and 3) Eliminate loopholes. The Obama Medicare 3.8% tax is on the chopping block. Corporate tax rates are going to be reduced so that American businesses will no longer be looking for mergers with foreign companies. The so called tax inversions will be eliminated in the right way, by making America more competitive when it comes to corporate taxes.

There is a lot we don't know yet. How will he deal with immigration, the military and the battle against ISIS? We hope he changes direction when it comes to trade. Protectionism may be popular, but it is economically destructive. China is already way ahead in developing a China-led Asian free-trade block. The United States needs to be a full and open partner with China and the Asian trade block. My guess is that Trump will do a double take when he finds out that China is our fastest growing export market. I am sure he doesn't want American exporters to lose business and be forced to cut employment.

The stock market's reaction to the Trump victory has been bizarre. During Tuesday night, stock market futures plunged, but by Wednesday morning they had recovered. U.S. stock market averages rallied Wednesday and Thursday. However, the broad market was decidedly mixed with as many stocks losing as winning.

Next comes the December meeting of the Federal Reserve. Bond index futures put the odds on a 0.25% rate hike at something around 70%. The dollar has been quite strong recently. That could discourage Federal Reserve board members from raising interest rates. If the Federal Reserve does raise interest rates this time, the stock market's reaction is likely to be muted. Stocks could rise in a relief rally because the forward guidance from the Federal Reserve will be very different than it was last year. After raising interest rates 0.25% last December, the Federal Reserve board members laid out a course for four more interest rate increases. That aggressive forward guidance spooked investors. It turned out that the economy was a good deal weaker than the Federal Reserve anticipated, and so there have been no further interest rate increases. Having been chastened, the Federal Reserve, if they raise interest rates next month, will talk about future rate increases being dependent on economic conditions and that, in any case, rate increases will be gradual. The change in future guidance is why I think a stock market relief rally is possible.

Longer term the focus should be on the dramatic change that has occurred in Washington thanks to the election. The Trump victory is getting just about all of the attention. But handing the three branches of the Federal Government to the Republicans for the first time in 145 years is even more significant. The data say the Republicans could have won the Senate and House even if Trump had lost. That two branch control would have been positive for stocks. Adding the Presidency is more than a bonus, it is a game changer in favor of stocks for the long term.

I will have the next market review and update for you one week from today on
Wednesday November 23, 2016.

All the best,

John Dessauer

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