Time to make sure that the majority of your investments are as "socially responsible"

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This month's MarketCycle's Musings post involves me thinkin' out loud about the ramifications of the U.S. election. I am not taking sides. For an investment advisor it is important to consider both sides of every argument and concept with an unbiased mind. Frankly, the best investment account managers are unbiased, politically-independent moderates. Anyone positioned on either the far-right or on the far-left will always be biased in their judgement and they will always be looking for ways to confirm their stance and they will never be interested in evidence that challenges their position. That said, with Mr. Trump now as the most powerful man in the world, I'm a bit of an apocaloptimist.

I've been repeatedly writing (since late 2011 when the most recent Secular Bull actually started) that something would come along that would propel us into a prolonged Secular stock bull market similar to the ones in the 1950s & early 1960s and the late 1980s & 1990s. Secular bull markets still contain multiple normal economic recessions but the bullish periods are stronger than usual (and the recessions are profitable for trend followers like MarketCycle Wealth Management that can also *short* the market). Of course, both Secular periods ended with massive problems, the first with prolonged stagflation and the second with depressionary conditions, but the ride in between was fun. The Secular stock bull market that started in the 1950s centered around Eisenhower's big infrastructure spending and the one that started in the 1980s centered around Reagan's big tax cuts and deregulation. *Now we have a polarizing President-elect in the United States that is promising to implement the ideas of both.* It may conclude with us reaping the end results of both… stagflation in the 2030s followed by depression in the 2040s??? Again, just thinkin' out loud.

In my last blog I wrote that the normal market/business cycle had been "Trumped" by the unexpected election of Donald Trump and that investor's portfolios had to be altered accordingly. My main concern was that what is normally an important asset for the late-stage of the market cycle, *emerging market stocks*, had to be jettisoned from portfolios because of President-elect Trump's threats against them (IE, Mexico and China, the Middle East, Africa and South America). I was also concerned that his proposed programs would unleash inflation (where everything costs you more) and crush the (fixed-rate) bond market while raising the price of the United States Dollar. *Obviously we were correct on these calls; both emerging market*

stocks and fixed-rate bonds tanked while the Dollar soared and there is likely more damage to come.

For any readers that believe that we are still in a state of *deflation* rather than inflation, MarketCycle's indicators, using the Federal Reserve's own data (but via trend analysis) revealed a strong and continuing uptick in United States inflation beginning on January 1, 2016. We are absolutely now in the early stages of an inflationary scenario that is about to get even more inflationary… slowly and steadily.

Mr Trump, while touting the benefits of smaller government, wants to spend $-trillions that the government currently does not have on infrastructure projects (including his "Trump Wall" and the military) all while cutting taxes on the ultra-rich (the middle-class may end up paying up to $2450 in additional taxes), imposing trade tariffs and eliminating the 2008 banking reforms. He wants to create a new "Infrastructure Bank" to ease the process. Trump essentially wants the U.S. government to borrow huge sums of money (at currently low fixed-rates) and then to throw this money at middle-class infrastructure jobs and "*see what sticks*" (actual words).

> Cato Institute: "It costs more than a dollar to finance a dollar in government spending. The best estimates indicate that, on average, it costs between $1.50 to $1.60 to raise a dollar in tax revenue."

With this infrastructure program, he is not actually planning to bring back the promised manufacturing jobs; he is a real estate mogul that is planning to go deeper into national debt to create construction jobs. *Buildings and bridges do not create long lasting jobs, they're not employers… they only create temporary jobs for as long as the temporary work is going on.* This is normally reserved as a depressionary economic tactic where the government attempts to just put people to work, but we are very close to full employment and we are not currently in a depression!

> The Economist: "Nothing government policy can do will bring back the lost manufacturing jobs. The service sector is the future of work in the United States, but nobody wants to hear it."

In an attempt to bring back manufacturing jobs, President Trump would impose trade-tarrifs and implement protectionist laws, but according to the OECD, each dollar of increased protection leads to a drop of 66 cents in Gross Domestic Product (GDP). This means that the entire economy is hurt by a practice that may end up creating few manufacturing jobs.

Several advisors to the new President are suggesting that the government could issue "tax certificates" for the private purchase of public debt in order to pay for the infrastructure projects, but this is not a good idea because the Federal Government will not gain the tax revenues.

President-elect Trump would also like to give $187-Billion in tax breaks to corporations in exchange for doing infrastructure projects. But there is no guarantee that these corporations will build anything that they aren't already planning to build (they will just end up making more profit off of their projects) and there would be no way to get them to build infrastructure where it is most needed but less profitable. My guess is that more projects would be done on the "liberal-elite" east and west coasts than in the "fly-over" mid-west and "Bible-belt" southern states where

many of Donald Trump's supporters seem to be concentrated. The infrastructure projects might end up just helping the already ultra-rich. And of course there has long been talk amongst some Republicans of just turning public property over to corporations… imagine toll booths on everything, oil rigs surrounding Yosemite and the clear-cutting of old growth forests.

This new spending program will unleash inflation while it increases the government's national deficit and, out in the future, deflates the economy.

The new administration's theory is that the gigantic infrastructure loans could be slowly paid down via increased tax receipts from newly employed middle-class workers (but not as much from the ultra-rich or from corporations since their taxes will go down). The big downside is that the resultant increased inflation means that the new "affordable-level" car that would have cost $3000 when I was young and costs $30,000 now will cost you much more in the not too distant future. The cost of everything would inflate.

President-elect Trump will attempt to hold the deficit down by slowly whittling away at (or privatizing) Medicare, Medicaid, Social Security, welfare programs, public schools, Planned Parenthood and the Affordable Care Act and also by gutting the Environmental Protection Agency. Trump has repeatedly stated that he would like to entirely eliminate the Department of Education and the Forest Service as well as unions and the minimum-wage. He will also slash away at the tax benefits of all charitable giving by the wealthiest Americans because he believes that not being able to write off charitable giving will eliminate the beneficial effects of these lower taxes on the ultra-rich… lower taxes but less write-offs. What it is likely to actually cause is just less charitable giving. And if the national deficit gets too large (or if inflation increases too much causing repayment to become too high) President-elect Trump is on-the-record saying that the United States could just default on its debt (via some sort of highly dangerous national bankruptcy).

What are the odds of President Trump not being able to accomplish most of his goals? The Executive, House, Senate and Supreme Court (and frankly, even the Federal Reserve [in 2018] and the Treasury… also the FBI and CIA directors will be appointed by him) all will be under the control of *one* party. There has been a strong suggestion that the Trump administration may attempt to eliminate the Congressional filibuster rules which would then effectively halt all checks & balances. Even so, there are a lot of "ifs" in all of Trump's plans.

We know what Donald Trump will attempt to do as President of the United States because we now live in a world where our words are permanent and can be fact-checked… and he has also repeatedly "3 AM Tweeted" during his long sleepless nights. Much of this has come *straight from the brain of Trump's chief strategist, Steve Bannon, to Donald Trump's mouth*. Steve Bannon is to Donald Trump what Dick Cheney was to George W. Bush. Bannon has publicly stated his deep admiration for Dick Cheney's "dark power." Some consider Bannon to be some sort of evil genius who clearly loves his own vision of America. It is important to take the time to accurately investigate who Steve Bannon is. Even if he were eventually forced to hide behind the curtain (because of his additional baggage such as promoting ridiculous conspiracy theories), Steve Bannon will still be present and effecting your life on a daily basis for years to come.

So, besides the concerns that I have about emerging market stocks as a late-stage asset, I also have concerns about how other aspects of the normal market cycle may be altered.

For investors or business owners, it is critically important to understand the market cycle; this is why our advisory is named "MarketCycle." The market always goes through a particular cycle where certain assets outperform in a timely and rotating fashion based on what is happening in real time with the economy and earnings and Federal Reserve activity. When the market cycle completes, it always starts over again. Always. It is not only important to understand the market cycle and to understand where we are in it, but it is equally important to understand what is different this time. Obviously the election of Donald Trump makes things very different.

So, as an investment advisor, I have to look at "*what may be different this time*." And this is my very flexible belief: Donald Trump's massive government spending programs might act as more of a stimulus on the economy than would direct stimulus by the Federal Reserve (which Trump ironically hates). While even more stimulus may sound great, and it would be great for the U.S. stock market for a prolonged period, my ultimate concern is that a massive stimulus program at this late point in the normal market cycle may cause a market that overshoots normal restraints, moving up past reasonable valuations rather than trending gradually up and routinely letting off steam along the way.

The problem with anything that travels too aggressively is that it falls hard when it does come down. If one throws a baseball high up in the air, it eventually falls back down and usually at an innocent bystander.

> Market excesses in one direction are always (ALWAYS!) followed by excesses in the opposite direction and this is something that we must constantly watch for.

So, if President Trump's promises all come true and if the market moves up past reasonable valuations because of his gigantic infrastructure stimulus and tax cuts, and if bank regulations are pushed back, then we would eventually have to "pay the piper." Not now, not soon, but eventually. MarketCycle Wealth Management was designed, from day one, for profiting from these dislocated trending markets (not rare sideways markets). As trend followers, we do not care which direction the market (or inflation) is trending, or how fast or how far, we only care that it *is* trending and we position ourselves accordingly.

> John F. Kennedy: "The Chinese use two brush strokes to write the word 'crisis.' One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger but recognize the opportunity."

> SO: We are still in a bull market and it just might get stronger for longer rather than weaker and bleaker. If you are in the camp that believes that Donald Trump will destroy the world and you are now "out of the market," you may be making a big financial mistake. A stock represents partial ownership in a corporation and it has little to do with politics or news. If corporations do well, and they are likely to for an extended period, then the stock market will do well and if you are invested, then you will do well too.

Mr. Trump plans to decrease capital-gains taxes on investments (Hillary Clinton had wanted to raise them) and this will tempt investors to put more money into stock investments (and push the

stock market higher). Trump also plans to decrease corporate tax rates from 35% to 15% and this will cause bottom-line corporate-earnings to increase which will make stocks more valuable (and push the stock market even higher). In addition, he wants to offer a cheap repatriation (back to the U.S.) of $2.5-Trillion worth of foreign held (large-cap) corporate money at a 10% tax rate paid over a spread out 10 year period (rather than the current immediately paid 35% tax rate). At least half of this repatriated money would be used by the corporations for stock buybacks. In a stock buyback, companies buy back their own shares from the public markets using their own cash. This has the effect of driving up the price of the company's stock (but not actually long-term improving the company in any way) ultimately driving up the stock market as a whole.

Trump Tips:

1. Push income into 2017
2. Give to charities during 2016
3. Depending on what happens, it might be beneficial for sole-proprietors to become corporations
4. Open an additional non-IRA investing account since taxes on profits in these accounts are being lowered

In conclusion, if President-elect Trump's dreams all come true, this may not only cause stocks to move higher for longer, but to make it more worthwhile for you to hold them for as long as the market is still bullish and then to benefit from being able to pay less tax on the profits. Although future economic recessions would still need to be side-stepped, this might generally prove to be an extremely good period for investors regardless of whether one is excited or fearful about the markets and life in general. The calculated percent chance of a U.S. economic recession six months out is less than 6% and near term risk continues to diminish on a daily basis and the economy itself is still gaining in strength. P/E levels could *eventually* hit levels that are quite high. It's time to embrace your fears and grab hold… and perhaps it is also a time to make sure that the majority of your investments are as "socially responsible" as is humanely and humanly possible