

November 11, 2016

Many people were likely surprised by Tuesday's presidential election results. There is no doubt that the markets were certainly confused on how to interpret the outcome. As election results on Tuesday night began hinting of a Trump victory, Dow Jones Industrial Average futures plummeted, indicating that Wednesday's market results were likely to be ugly. Yet when the U.S. markets opened on Wednesday, they were flat. Even more surprising was the fact that Wednesday ended with the Dow Jones Industrial Average being up 257 points, or 1.4%! A big day in the market, and definitely a roller-coaster ride.

Putting aside market gyrations and politics, we must identify those economic areas that, in our opinion, have a high chance of receiving a lot of attention and change under a Trump administration. Additionally, there will always be some level of uncertainty with any newly elected president. Uncertainty brings about volatility, and we must keep a close eye on these particular economic areas.

Key economic areas where President-Elect Donald Trump will likely direct his focus:

- **Affordable Care Act (a.k.a. Obamacare):** Mr. Trump has been very vocal about his desire to "repeal and replace" Obamacare. We would expect some details about how he is going to repeal and replace it within the first 100 days of him being in office.
- **U.S. Corporations Repatriating Foreign Cash:** It is estimated that U.S. corporations hold \$2.5 trillion overseas in order to avoid paying corporate taxes. Many members from both political parties, including Mr. Trump, have expressed interest in allowing corporations to repatriate their foreign cash with limited or no taxation. We should expect an announcement of some form of a tax holiday and potential restrictions on the use of the repatriated cash.
- **Tax Reform:** Mr. Trump has outlined plans to close certain tax loopholes and reduce individual and corporate tax rates. More specifically, he has called for lowering the corporate tax rate from 35% to 15%.
- **Infrastructure Spending:** Mr. Trump has promised to increase infrastructure spending (e.g. bridges, highways, etc.). Given the current state of the U.S. infrastructure, the increased spending is much needed and will be beneficial to the industrial sector.
- **Change of Leadership at the Federal Reserve:** Mr. Trump has expressed dissatisfaction with the current Chair of the Federal Reserve, Janet Yellen. Recent news stories are reporting that he will not pressure her to resign, but many market participants do not expect her to serve a second term. The uncertainty that comes with establishing a new Chair for the Federal Reserve could create volatility in the markets.
- **Trade Deals:** One of Mr. Trump's biggest campaign promises was to renegotiate trade terms with many U.S. trading partners. What is worth monitoring is how aggressive he will be in the renegotiations and how it will impact the ability of U.S. corporations to manufacture overseas and import/export goods.

Some may ask: Do Tuesday's results impact your investment outlook? We are cautiously optimistic and feel that potential tax reform and deregulation could drive higher economic growth. Regardless, we will continue to hold companies that we believe can grow their earnings and trade at reasonable valuations. Our research will still be fundamentally-driven and we will exercise prudence when buying new securities given today's full market valuations. Finally, the market will likely exhibit above-average volatility over the next few months as market participants speculate on what a Trump administration will bring. We will continue to take advantage of the higher volatility by rotating out of overvalued securities and purchasing undervalued securities. In summary, our role as stewards of your capital has not changed following Tuesday's results, and we think there will be additional long-term investment opportunities to take advantage of in the months to come.

We are grateful for your support and continued confidence in Gamble Jones. Please do not hesitate to reach out to us if you have any questions.