



The Centurion Counselor

Third Quarter 2016

SPECIAL PRESIDENTIAL ELECTION EDITION

UNDERVALUED SECTORS (CONSIDER!)

- MATERIALS
- NATURAL GAS
- AEROSPACE/DEFENSE
- SMALL CAP VALUE



OVERVALUED SECTORS (AVOID!)

- LONG TERM BONDS
- EMERGING MARKETS
- LARGE CAP GROWTH
- JUNK BONDS

It is perhaps fitting to quote Mick Jagger and Keith Richards at this point.

*No, you can't always get what you want
You can't always get what you want
You can't always get what you want
But if you try sometime you find
You get what you need*

Or perhaps The Grateful Dead

*Truckin' got my chips cashed in, keep truckin', like the do-dah man
Together, more or less in line, just keep truckin' on
Arrows of neon and flashing marquees out on Main Street
Chicago, New York, Detroit and it's all on the same street
Your typical city involved in a typical daydream
Hang it up and see what tomorrow brings
Dallas, got a soft machine; Houston, too close to New Orleans,
New York's got the ways and means; but just won't let you be, oh no
Most of the cats that you meet on the streets speak of true love,
Most of the time they're sittin' and cryin' at home
One of these days they know they better get goin'
Out of the door and down on the streets all alone
Truckin', like the do-dah man Once told me You've got to play your hand
Sometimes your cards ain't worth a dime, if you don't lay'em down,
Sometimes the light's all shinin' on me,
Other times I can barely see
Lately it occurs to me what a long, strange trip it's been*

Election night, as the returns started to roll in, Dow futures fell 100 points, then 300 points, then 500 points. When NBC called Ohio for Trump, it suddenly became 700, then nearly 1000 down at the lowest. (See chart on next page.)

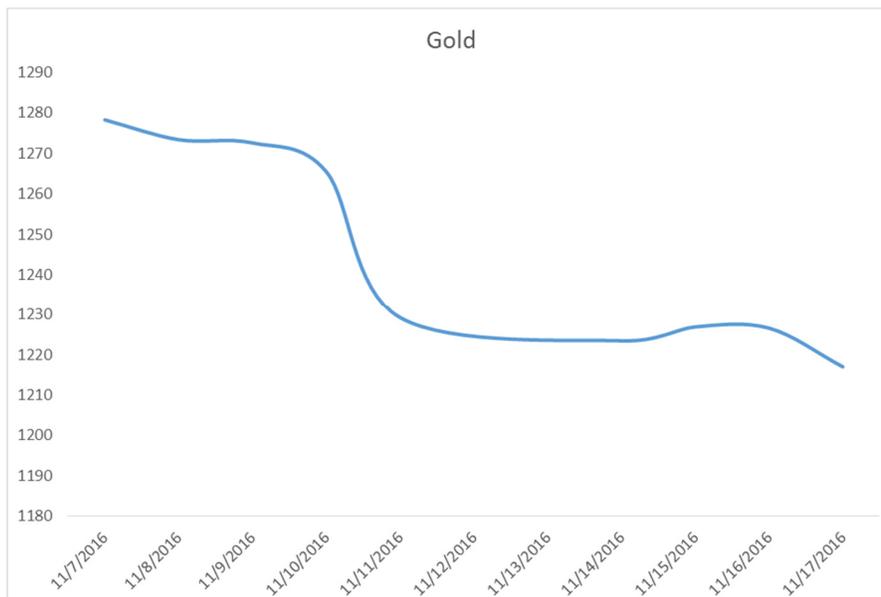


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Gold, meanwhile, soared from \$1,270 at 8:00 p.m. EST past \$1,335 shortly after midnight. Much of that freak-out reversed itself in the following days. See chart below:

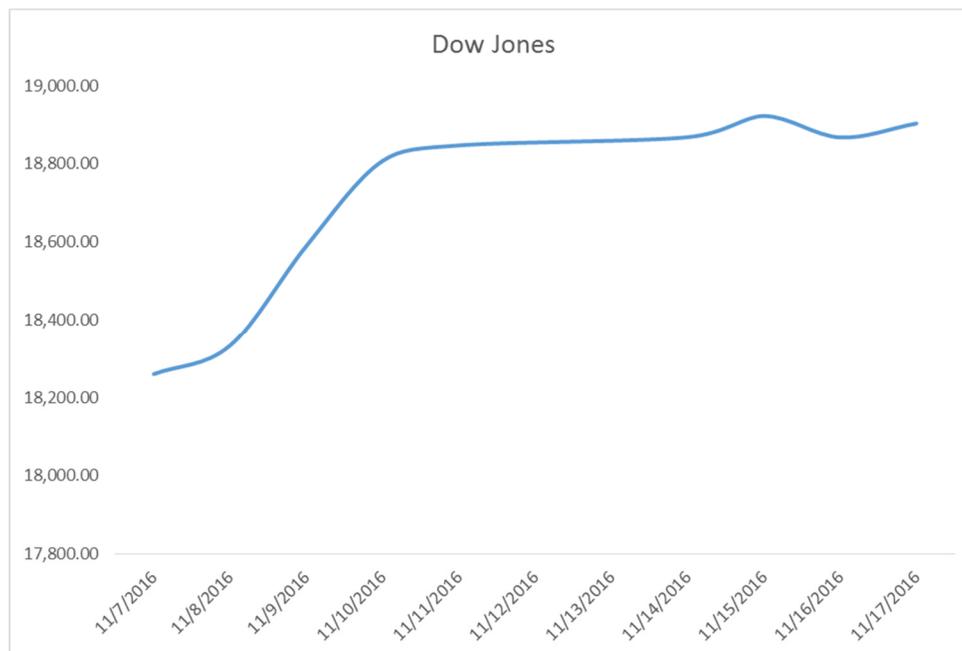




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The Dow closed at 18,259 on the Monday before the election. As we write this, after the market closed on Thursday November 17th, barely one week later, the Dow closed at 18,858. It needs to be noted, however, that only 4 of the Dow 30 stocks have accounted for 50% of the gain (Caterpillar, Goldman Sachs, JP Morgan and Home Depot). See chart below:

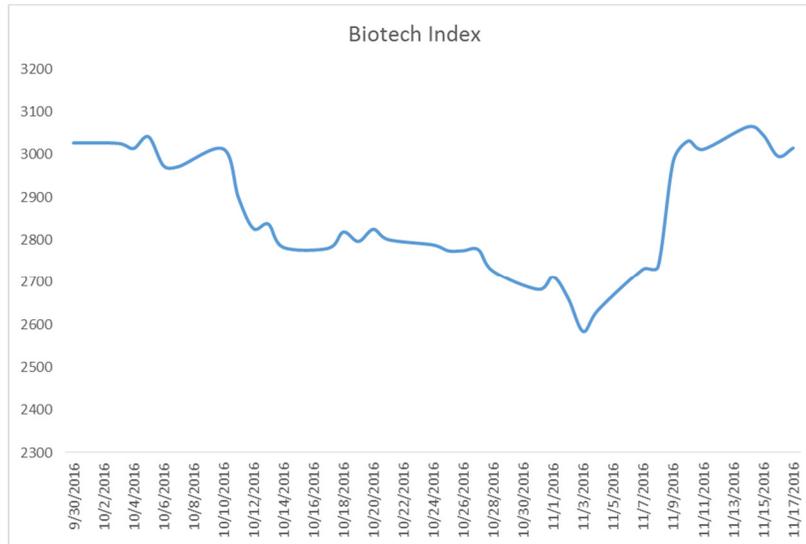


During the Presidential campaign, Clinton suggested implementing pharmaceutical price controls and has continued to make it a political focus after the election. Naturally, fresh off the heels of a Trump win/Clinton loss, investors started snatching up shares in the biotech sector left and right. It also didn't hurt that Californians rejected Proposition 61, a measure which would have capped drug prices for state health care programs at the same levels as prices paid by the federal Veterans Administration. Big Pharma spent a ton of money on commercials warning of potential drug shortages and higher prices if the referendum passed. The first chart on the following page shows the price action leading up to the election and the second chart shows the price action since the election:

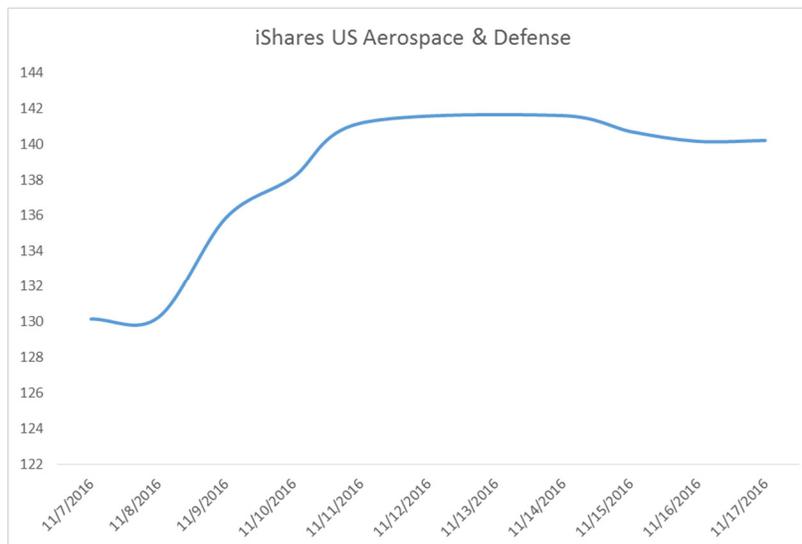


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In a surprising move, defense stocks also enjoyed a Trump bump. ITA, one of the big defense Exchange Traded Funds, has jumped from \$130 to \$140.09 since the election. Perhaps the market did not believe Trump when he talked about pulling back from America's vast military obligations worldwide. During the campaign, he said he'd pull U.S. forces out of South Korea unless the South Korean government helped foot more of the bill, but according to the South Korean press, Trump has already called President Park Geun-hye and promised to stick to Washington's existing commitments. See chart below:

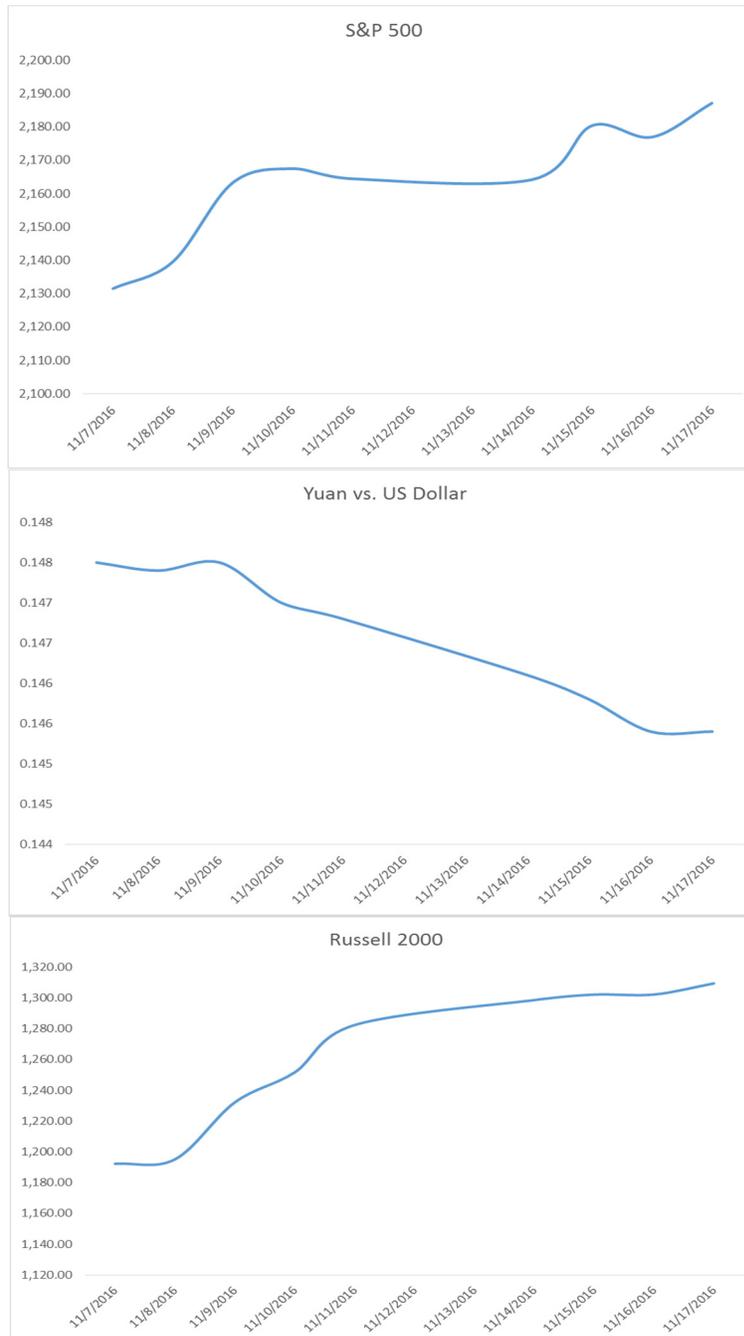




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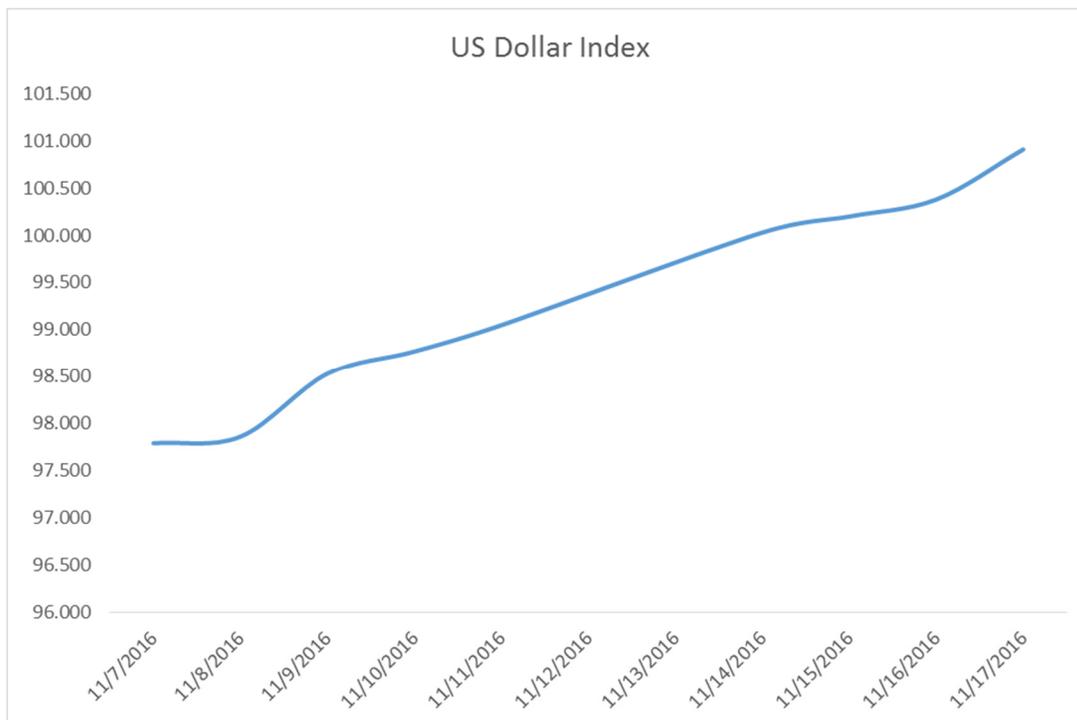
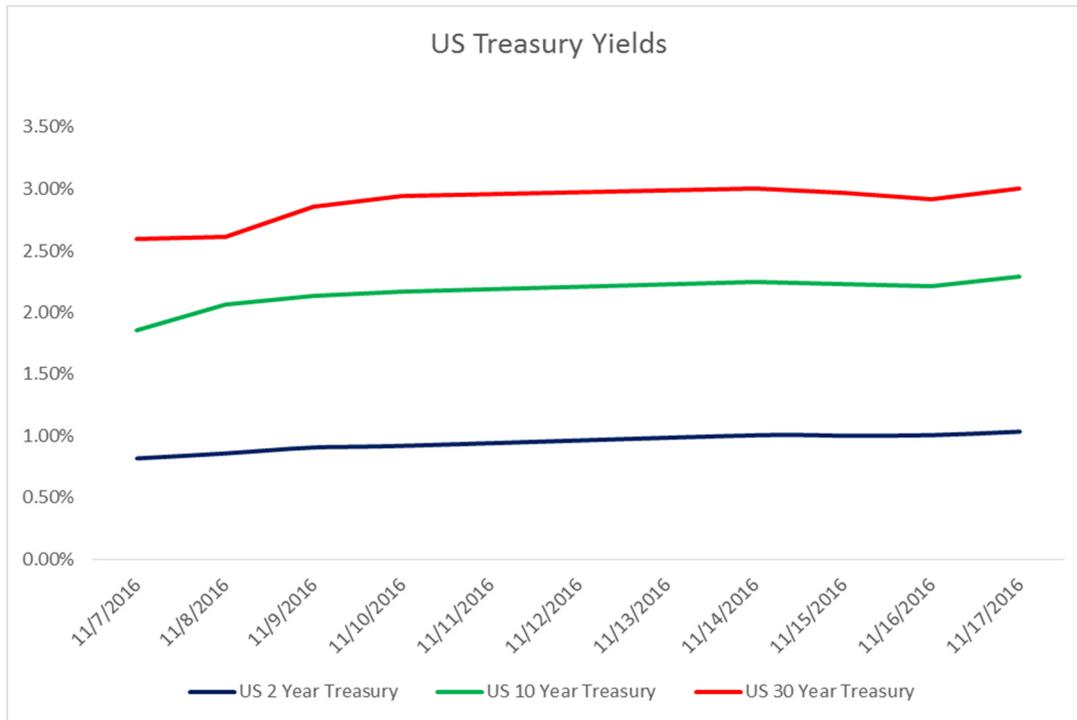
Post-election has seen several other trends; a sell-off in the bond, a rally in small cap stocks, and a sell-off of the FANGs (Facebook, Amazon, Netflix and Google). In addition the U.S. Dollar has hit 14 year highs and the Chinese Yuan continues its decline. See charts below:





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Our Cloudy Crystal Ball

We have not talked to anyone who is not glad that the election is over, but now we have one-half the population happy and one-half the population sad or apprehensive. As to be expected, we have had a number of questions about what the election will mean for the market and the economy. Without being too glib, that will be a question best answered in hindsight either 4 or 8 years from now. We have some thoughts about what the next President will face regardless of the winner.

Although the current recovery has been anything but robust, it has had a long life, increasing the odds that President Trump will face a recession during his first term. Partly because of Federal Reserve inaction the last four years, the Fed may not be able to provide much help. In our opinion, the deficit is likely to increase to levels last seen during Obama's first years in office.

We also believe that both candidates would have pushed massive infrastructure projects but in a key difference, Clinton would have done it by raising taxes while President Trump will combine tax reform with infrastructure spending. The key element of tax reform will be on the corporate tax. U.S. companies currently have in excess of \$3.5 trillion offshore that if repatriated would be taxed at 36%. We believe that the tax rate will be lowered to between 5 and 10% resulting in several benefits to the economy. First a windfall to the treasury of approximately \$350 billion and second, an end to the trend of companies changing their domicile to lower tax jurisdictions. We believe that the corporate tax rate will be reduced to around 15% with fewer deductions.

One of the problems with the U.S. economy has been the increase in regulations so any reductions will help businesses, especially new and smaller companies, prosper. While the above steps most likely will not stop the recession, it will probably be short lived as the employment gains from the infrastructure projects and the new tax revenues jump start the economy.

We feel very good about our allocations in Health Care and small cap value stocks. We are in the processing of reviewing all client accounts and while we may recommend minor tweaks for some clients' portfolios, we do not anticipate major changes in allocations.