

Republicans Have Historic Night

Whether you are a Republican or a Democrat, Donald Trump's win came as a shock to the world. The U.S. market's initial reaction was a free fall drop. The S&P 500 futures were down over 6% overnight. Foreign markets that were open fell. For example, the Hong Kong Hang Seng Index was down over 2% and the Japanese Nikkei 225 Index dropped over 5%. As investors began to digest the election results and listened to speeches by Donald Trump, Hillary Clinton, and President Obama, the S&P 500 calmed down, shook off early loses, and finished up 1.11% on Wednesday.

Our client base is made up of the full spectrum of political beliefs. As I have stated in prior e-mails which have discussed the impact politics have on the markets, I will remove my personal political beliefs and write only about what I consider to be facts. ***As you read this, I encourage you to try to be as clinical as possible about what may lie ahead for the markets under a Donald Trump presidency.***

Last night's election has guaranteed that the Republican Party, come January, will be in control of the House of Representatives, Senate, and the presidency. So what does this historic election mean to you as an investor?

Here are a few things that I would expect the Republican Party to try to do while it has control:

- The Republicans will fill the empty seat in the Supreme Court with a conservative judge. This would not be a major shift in power because the open seat was as a result of Antonin Scalia's passing. Justice Scalia was appointed by Ronald Reagan and was considered a conservative.
- The Republicans will immediately attempt to repeal the Affordable Care Act (ACA), sometimes referred to as Obamacare. Estimates vary but according to MSNBC the Republicans have attempted to repeal all or some of the ACA 62 times. There is little question that repealing the ACA will be high on their priority list.
- The Republicans will attempt to lower income taxes for all Americans and to simplify our tax code. Republicans believe that cutting taxes for all Americans will stimulate the economy because the average American will have more money to spend. Seventy percent of our economy is generated by personal consumption. Tax cuts did work to stimulate the economy during the Reagan and Clinton administrations.

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- I can see the Republicans overhauling our immigration policies but find it almost impossible that they will attempt to deport the undocumented immigrants from this country or build a wall along our southern border with Mexico (even if Trump is claiming he will). This is why:
 - Mass-scale deportations would be logistically difficult, could potentially upend parts of the economy (particularly in the agricultural industry), and would divide hard-working families who had been in this country for decades. According to the American Action Forum (AAF), it would cost between \$400 and \$600 billion to deport all illegal immigrants in our country over a two-year period.
 - While building a wall along our southern border would certainly make a political statement, most experts have stated it would do little to stop a major portion of new arrivals (those seeking asylum and then overstaying their visas). It would also face enormous obstacles in being built, including environmental and engineering problems and the huge topographical challenges of the border itself. Building the wall would be an engineering marvel on the same level as building the Panama Canal or the Hoover Dam, and arguably create no benefit to the country. According to a Washington Post study, the wall would cost \$25 billion.
- Trump will certainly attempt to renegotiate trade agreements. He has openly discussed ending NAFTA (the North American Free Trade Agreement) and the Trans-Pacific Partnership, and taking a tough line with China.

With all of this in mind, what areas of the market should benefit from a Trump presidency?

- **Energy** – While there will still be pressures on West Texas Intermediate oil prices over \$50 per barrel (due to worldwide oversupply of oil and dormant oil shale rigs ready to come online when production would be profitable), this sector should face less regulatory intervention from the Republican government.
- **Defense** – Trump has campaigned for making the U.S. military stronger.
- **Banking** – Like energy, the banking industry should see an easing of some constraints currently placed on them from the current administration.
- **Health Care** – Some areas of the health care sector, like biotech and pharmaceuticals, should benefit from Trump being in office. Large health care providers supporting the Affordable Care Act are at significant risk of seeing their earnings impacted by the potential repeal.
- **Industrials** – Trump has stated that he wants to spend a lot of money on our aging infrastructure.



The Polaris Perspective

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On Friday, January 20, 2017, Donald Trump will become the 45th President of the United States. Whether you voted for Trump or Clinton, we now need to concentrate on how to navigate our future markets under his leadership. As Hillary Clinton said in her concession speech, "I still believe in America and I always will. And if you do, then we must accept this result and then look to the future. Donald Trump is going to be our president. We owe him an open mind and the chance to lead."

Polaris Wealth is dedicated to tactically managing your portfolio. We use technical research, fundamental research, sentiment indicators, and macro-economic indicators to help us make clinical investment decisions in your portfolio. We will work with our data to increase or decrease your exposure to the stock market based upon the risk we determine is in the markets. We are confident that we will be able to successfully navigate our future markets and help you to successfully accomplish your long-term financial goals.

As always, I welcome your questions and comments.



Sincerely,

Jeffrey J. Powell
Managing Partner