

Brendel *e* Fisher

F I N A N C I A L A D V I S O R S

February 8, 2017

HOUSEKEEPING: Brendel & Fisher will be closed Monday, February 20th in observance of President's Day.

Greetings:

The market's value has risen dramatically since Election Day breaking 20,000 and sustaining its months' long upward trajectory. Coincidence? No. Investors expect good, maybe even great things. President Trump is quickly pivoting to a pro-business agenda in contrast to the last eight years. He has brought in leaders from industry and labor to help find ways to boost the economy out of its decade-long malaise and the meetings seem to be productive. Investors, myself included, like where this is going.

A closer look at the market reveals how investors are indeed increasingly optimistic. Transport stocks (truckers, rails, airlines, etc.) typically do well ahead of an economic upturn. They have been strong. So do the financial stocks, which have also led the rise. Materials stocks have risen as investors anticipate Trump's promise of more spending on infrastructure. There are other pockets of strength (steels, for example) even though the headlines from some high-profile large companies (Unilever, Target, Caterpillar, Verizon among them) are not good. For now.

Healthcare industry CEOs are looking forward to administration policies that are pro-innovation. Trump said he aims to reduce regulations and streamline the FDA to speed up the drug approval process. The possibility of price controls has kept investors away from drug and healthcare stocks, even those at compelling valuations, but that appears to be changing now for biotech stocks. Merck's CEO, after a White House meeting, said President Trump is more focused on improving the business environment in the US and working with the drug companies and the medical producing companies feel very positive about this relationship too. In other industries CEOs also see the pro-business tone leading to better days. Look for capital spending to rise, hiring as well (it did in January).

There are positive economic messages on the income side as well. Certain asset classes are closely linked to the economy's health. Junk bonds are a good example and they've done well. Last year junk bonds easily (and quietly) outperformed the S&P 500. So did emerging market debt. Business development companies, which lend to private corporations focused on the U.S. economy, have done very well.

Some cautious investors are unnerved by the widespread optimism and insist that the market seldom accommodates a large majority. That is true, but 'seldom' is not the same as 'never'. Over my long career I've seen again and again how doubters and naysayers look for confirmation before they buy and ultimately pay much more or miss out entirely on the rising tide. What was the

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economic and financial environment in March of 2009? Again, horrible. But some investors looked past that and bought at fire-sale prices knowing that an upturn, while not a certainty (nothing ever is), was a good bet with a huge payoff. There are reasons to be optimistic today. Cutting taxes, corporate rates especially, should invigorate entrepreneurs and businesses large and small. So will removing regulatory obstacles.

The larger trends still favor stocks over other investments. The developed world is deconsolidating central institutions and diffusing authority and responsibility to individuals, communities, small companies, local governments and families. Sweeping changes will impact global economies for decades much as opening up China did in the 1980s and the fall of the Soviet Union and communism did in the 1990s. The changes will come faster than people expect and be more positive; the market's rise shows that investors realize it. Politicians do not. They've benefitted from the old order far more than constituents and are loathe to give up control and power. They won't have a choice.

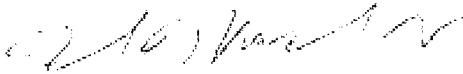
What could go wrong? A trade war or even isolated conflicts could have negative ramifications no one can anticipate. That said I can't imagine anything arising from our differences with Mexico will amount to much. We buy 80% of their exports, and they rely on our natural gas. Would they jeopardize that relationship? No. We are China's largest market. They won't jeopardize their relationship with us in any serious way either. Is inflation an issue? Not a problem yet. A year or two out? Maybe. Inflation should always be enemy number one.

On the political front potential problems are clear. The speed with which taxes will be cut, regulations axed and spending increased may slow. Investors and business people need numbers before they put capital to work so the process needs to move along. And will the new tax rates be retroactive to January 1? Yes, if passed soon. No, if delayed.

Expect selling from time to time after such a great bull run. That's inevitable, even healthy. The Media's rush to attribute every market rise or fall to a specific reason, preferably today's news, misses the big picture. Recent selling was unrelated to Trump's immigration policies, the weak fourth-quarter GDP report, cabinet nominations, the Supreme Court or anything else in the news. It was profit-taking, nothing more, and didn't amount to much. The market fluctuates...period.

Bottom line: The odds favor a continuation of the positive factors that have propelled the market higher and higher. Anticipation of better days and with them rising earnings coupled with the unattractiveness of the alternatives to stocks are the market's key drivers. But anticipation can take the market just so far. Soon better days need to appear, not be 'just over the horizon', and I feel they will. Of course, there are always things that could go wrong and the unforeseeable occurs. But history is clearly on the side of the optimists who see a glass half full, not half empty, despite squabbling in Washington.

More soon.



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