Brendel & Fisher

FINANCIAL ADVISORS

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Greetings:

In my last letter I stated the obvious, or what I thought was the obvious, that it's not a perfect world. I should have copied congress. Some House Republicans need to know that.

About 25 of the most conservative Republicans insisted on the unattainable (complete repeal of Obamacare and in time replace some of it) rather than a less-than-perfect bill that would do much -- scrap the taxes and mandates -- and most important clear the senate. Senate bills need 60 votes to pass and rarely does one party have them. Obama had 60 votes for his first two years and pushed through Obamacare and Dodd-Frank by making concessions to nail down the last votes. After the 2010 elections, and without 60 votes, nothing of consequence passed in his next six years. He used executive orders, thousands of rules and more regulations to accomplish some of what he couldn't do through legislation. Trump may need to do the same. Or not.

There is a path for healthcare even without 60 votes, one that needs only a simple majority. But "reconciliation" can only be used once a year. I assumed Paul Ryan would hold that card for tax cuts and reform in case it's needed and not use it for healthcare. Tax cuts and reform, both of which have some support from Democrats, are more urgent for the economy than killing most of Obamacare, which after seven years could wait one more. From that perspective the failure on healthcare was beneficial in that the option is still there to be used. If needed, get on with it, I say, the sooner the better. Tax cuts take time to show effects.

The downside of delaying Obamacare changes if not repeal is this: Obamacare has $1 trillion of taxes over a decade, mostly on investment income and some on the sale of medical devices and drugs. Eliminating those would have jump-started the tax cutting effort and made it easier. The end result now will be less tax cutting than would have otherwise been the case...and less impact.

That negative aside, economic data continue to be encouraging and in some ways resemble a gathering storm. Last week it was orders for durable goods, this week consumer confidence reached a 16-year high, existing home sales rose and fourth-quarter GDP growth was revised up to 2.1 percent, a little

John J. Brendel, Jr. AAMS®

john@brendelfisher.com
64 Lyme Road Hanover NH 03755
603.643.4441 • 855-703-6068
603.643.4449 fax

Timothy F. Fisher, CFP®

tim@brendelfisher.com
58 North Main Street PO Box 1258 Wolfeboro NH 03894
603.569.4699 • 888-588-7550
603.515.1217 fax

better than expected. CEOs, small business owners and homebuilders remain confident to a degree not seen in many years. The wave of populism around the world, which to Ray Dalio, the largest hedge fund manager ($150 billion), is a once-in-a-lifetime event, is a net positive that can bring many benefits along with some challenges. Some people know that, many do not.

President Trump's pro-business, pro-investment, GDP growth agenda is intact, though a bit bruised. While the outcome of the healthcare bill was not expected (including by me), there is a reason stocks have been giving ground for six weeks. Mainly, that the outlook for GDP growth has diminished a bit due to reduced expectations for the speed and size of tax cuts and reform. No wonder interest rates have been falling. I've been saying for months that the near-universal opinion that interest rates can only rise was dangerous. There were (and are) signs that a rise is not a certainty. In that light, utilities and better-yielding stocks are looking more and more attractive. Preferreds have been steadily inching up, which means their yields are falling. The ten-year Treasury's yield has fallen to 2.39.

Stocks have logged six straight positive quarters, a feat last done in 2006. For several reasons the bull market is not over. Rising profits in a growing U.S. and global economy, the lack of attractive alternatives to stocks, and still-low interest rates are three. On CNBC this week there was talk of an overlooked fourth reason, i.e. a shrinking supply of stock. In 1996 there were 8,000 U.S. listed stocks. Today, after many mergers, takeovers and some bankruptcies, there are 4,000. And while the stock universe has been shrinking, the amount of money available to invest in a low-rate environment has soared. More demand and less supply is a formula for rising prices. It has also caused investors to look overseas, both to developed markets (Europe, Japan) and emerging economies (symbol EEM). Those have done well, too. There are other reasons as well, including new technologies, more productivity from robots, the internet of things, the cloud, etc.

Sincerely,

John J Brendel, Jr. AAMS
Managing Partner