



Trump vs. the Wall of Congress vs. Opportunities of the Republican Sweep

Trump's electoral win with Republican control of the House and Senate results in both a large investment risk as well as a significant potential opportunity. Clinton won the popular vote by over 2.5 million votes. In 2000, Gore beat Bush by 540,000 but lost.

Electoral College Brief History

Before diving into the investment aspects, some history might be of interest. The Winner-take-all even if by one vote system is followed in 48 of the 50 States. Maine and Nebraska have allocated by district since the 1880's.

In 1787 James Madison argued that an allocation by popular vote would be more in line with democracy. Madison proposed black people be allowed to vote and count for three-fifths of a person. In 1788, Alexander Hamilton in his *Federalist # 68*, explained that the electoral college was justified, since citizens would not likely possess the information and discernment needed in choosing the President. Electors' purpose was to exercise their own judgment to save the Republic from a demagogue. Hamilton so believed this was to be done district by district; he proposed a constitutional amendment to mandate the district system. Madison concurred, "The district mode was mostly, if not exclusively in view when the Constitution was framed and adopted."

Trump Winning vs. Governing - The Next 4 Years Depends on his Success

Trump won despite his divisive win-at-any-cost personality and volatile temperament. Trump's voters represented a primal scream against the establishment in Washington, who for years have felt left out of the economic gains they perceive as having gone to the top 1%. The electoral win was from those that had lost manufacturing jobs in Midwest industrial centers and smaller rural towns.

Trump faces the reality that not only Democrats but many Republicans oppose some of his often vague-on-details promises to "Make American Great Again." Governing is different than campaign promises to get crowds to cheer. Can he be a true leader and unite folks towards a more positive attitude? You can't have a great U.S. if half the country hates you. If Clinton had won, we would still be in this state of division. Trump enjoyed the attention at rallies and

crowds yelling "lock her up." His 60-Minutes sober interview may give some hope that he can have a more positive temperament.

Investment Implications Overview

Assuming Trump can overcome the wall of Congress, we need to understand Trump's New America view as it relates to investments. For the next four years, U.S. economic success will be largely dependent on Trump's success. Investment strategies may be more important than ever. For optimistic investors, we can recommend strategies with more potential participation; for skeptical or risk-avoidance investors, we can emphasize protection strategies. For many, it may be our longstanding combination of compelling participation-yet-protect strategies.

Trump Optimism Propels Dow to Best Week in Five Years After 800 Point Pre-Market Crash

When the results late on election night started to indicate a possible Trump win, Dow Futures plunged over 800 points. The S&P 500 and Nasdaq index futures both triggered their downside circuit breakers and trading was halted. Often these sharp declines are from high-speed machine trading, based on momentum until humans start evaluating and trading.

As the futures collapsed, famous investor Carl Icahn said: "I tried to put a lot more to work, but I couldn't put more than about a billion dollars to work."

The Trump win could eventually mean that massive fiscal stimulus might propel the economy out of its slow-growth doldrums, aided by massive new spending as well as huge tax cuts. Most Republicans welcome the chance to join him in lifting the restraints on the private economy by massive deregulation. This Trump potential had propelled the markets immediately after his election.

Trump's "Trickle-Down" Economics

This theory that was tried under Reagan is that massive tax cuts leave more cash to spur investments and hiring. The faster growth generates enough new tax revenue to pay for the cuts. This has been referred to by critics as "voodoo economics."

Trump proposes chopping the top individual marginal rate to 33% from over 40% - as well as more modest

cuts for those with low and moderate incomes - and the corporate rate to 15% from 35%. This is a cut for couples with taxable incomes over \$413,000. For those over \$1million, the tax cut appears massive. Trump's plan would also benefit estates of over \$10 million (joint) left to non-spouse heirs like his sons and daughters. Trump says "It is going to be a job creator like we haven't seen since Ronald Reagan. It's going to be a beautiful thing to watch."

Tax Policy Center analysis: The top 1% get a 13.5% boost to their after-tax income, compared to a 1.8% increase for taxpayers in the middle fifth of incomes.

The Committee for a Responsible Federal Budget estimates the Trump proposals would reduce revenues by \$5.8 trillion over a decade. Overall, Trump's measures are forecast by the group to add \$5.3 trillion to the deficit over 10 years, versus \$200 billion that was expected over the same period under the Clinton plan.

Critics call it "trumped-up trickle down." It may create more sales of yachts and multi-million dollar homes, but without the creation of broad middle-class demand, the question is who is going to buy other goods and employ more people? The economy lacks strong demand for goods, not a need for more supply. Besides, corporations are awash in cash, and with near record-low interest rates, they have cheap money available for capital spending. Tax cuts would probably enhance profits, increase top executive pay and be tossed out as dividends or used for already high levels of stock buybacks, which is good for investors, but not much for the economy or jobs.

Repatriation of foreign income at a favorable rate does make sense. While the U.S. corporate tax rate is the 2nd highest in the world, few corporations pay that rate due to many deductions. Independent studies have shown that the corporate rate actually paid is about average for developed economies.

It is not clear that tax cuts worked for Reagan in the 1980's when the top rate was cut from 70% to 28%. The national debt tripled, which contributed to the Bush recession in 1990-1991. There is little evidence of "trickle down" to middle-income folks. History shows that President Bill Clinton significantly raised taxes and had bigger job gains than Reagan, partly aided by the tech boom.

Manufacturing jobs not likely to return

The next probable revolution is robomation, not the old economy need for factory workers. China isn't so much taking jobs due to lower wages, but increasingly due to China being so far ahead of us in robomation and infrastructure. **Mass infrastructure spending will**

create construction jobs, not many factory jobs for workers responsible for his electoral win.

Robomation is slow to take hold in the U.S. since there are so many job openings but not enough qualified people to fill them. That is why the high demand for foreign high-tech STEM-skilled folks. Yet Trump proposes to limit foreign workers further. Trump is trying to make America compete using old outdated factory labor vs. more efficient robomation which is rapidly advancing in Asia. I have a report: [Robots vs. human wages the next potential \\$trillion Growth & Jobs Opportunity. Today robomation may be like when the auto replaced horses and their workers.](#)

Trump Era Potential Winners

The election stock surge reflected the potential big winners in Trump's America. Winners include **Defense Contractors**, with his promise to rebuild the military, bomb away ISIS, and encourage some of our allies to develop nuclear weapons.

Infrastructure Suppliers and Contractors. Democrats may be more supportive of Trump's plan than Republicans with a fight over the financing of infrastructure.

Congress has been stuck for years on the question of how to pay for such projects, with suggestions such as reduced social programs, bond issuance, enhanced revenues from tax reform, or a hike in the gasoline tax all coming and going with no action.

Politico reports on 11/11/2016: "One of Donald Trump's top campaign promises - a trillion-dollar program to rebuild highways, tunnels, bridges, and airports - is already meeting resistance from conservatives.

"The president-elect has vowed that his infrastructure proposal will create 'millions' of jobs, likening it to Dwight Eisenhower's creation of the interstate highway system. It's one piece of his agenda that's drawing support from Democrats.

The article points out that some conservatives do not view infrastructure spending as an economic stimulus, and prefer priorities be on repealing Obamacare, eliminating regulations, expanding domestic energy production (even with our glut) and confirming conservative judges on the Supreme Court and lower courts.

Drug Stocks soared based on promises for mass deregulation, removing the concern of price controls. **Banks** benefit from higher interest rates, expected with the increased deficits as well as Trump's promise to get rid of Dodd-Frank and other bank regulations.

Coal and Oil may benefit by Trump's promises to open more lands to drilling, removing environmental restrictions and to get coal miners back to work.

Trump once tweaked: "The concept of global warming was created by and for the Chinese in order to make U.S. manufacturing non-competitive." Encouraging more oil and gas production with the worldwide glut might further reduce oil prices and send more U.S. oil companies into bankruptcy. Coal's decline may have more to do with competition from low natural gas prices than the environmental issues.

Trump Era Potential Losers

Alternative Energy such as wind and solar companies at least in the short term just when some are showing signs of success. The day after the election Tesla stock at one point was down 4.2% expecting no federal tax incentives for the Model 3 under Trump. The same day, Solar City being acquired by Tesla, reported net income of \$53.2 million vs. a year ago loss of \$19.1 million. Yet Solar City stock was down 6.2% at one point.

"One can only assume that his criticisms of the government tax breaks for solar energy are strictly political in motivation since his real estate empire is built on the hundreds of millions of dollars of taxpayer subsidies his projects receive." Source: SolarTribune.com on 2016 presidential hopefuls, Aug 10, 2015

Trump's dislike of wind energy seems partly the result of the fight he lost against windmills next to his Scottish golf course. "We have to save Scotland," he declared. "You cannot allow these industrial monstrosities sustained with government subsidy." Source: Never Enough, by Michael D'Antonio, p.318, Sep 22, 2015

Overall on alternative energy, Trump says, "What we have is really just an expensive way of making the tree-huggers feel good about themselves." Source: Crippled America, by Donald Trump, p. 65, Nov 3, 2015

Technology Companies are already handicapped by the lack of qualified applicants for a large number of job openings. Many foreign high-tech workers are used to fill the need. This could get worse with Trump's anti-immigration policies. Starting a trade war by imposing tariffs, attacking NAFTA, and not passing TPP are added risks for U.S. globalized technology firms.

Financial Times reported 11/12/2016 on the shock of Silicon Valley over Trump's proposals on trade, cybersecurity, and net neutrality. The industry is worried he could stall their hiring programmes dependent on H-1B visas or make it harder for them to fund foreign start-up founders. Lack of skilled workers could push tech companies to investment more in foreign offices. The CEO of Trimian said, "If

you can't hire a certain person and bring them to lead more growth here, what might end up happening is you hire in China and India and Mexico. It could be bad for Silicon Valley in terms of jobs." Brian Kropp, who works with human resource officers at tech companies, is urging them to make 'plan Bs' to cope with fewer foreign employees."

Almost half of US start-ups worth more than \$1bn have at least one founder or co-founder from another country, including SpaceX, Elon Musk's rocket-launching start-up, Palantir, the data start-up, and global ride-sharing app Uber.

However, some are optimistic that Mr. Trump will not follow through on his rhetoric and that his business sense will prevail.

Vivek Wadhwa says "My hope is that he doesn't mean the things he says. He's changing his position all the time. It's a joke when he's trying to get elected, but then he goes back to being a businessman."

"If Mr. Trump does restrict immigration in the industry, tech companies will find other ways to benefit from foreign expertise. Some might expand in countries that make it easier to hire immigrants such as Canada, where Justin Trudeau's administration is creating an innovation policy that will encourage companies to hire high-skilled software engineers, wherever they are from."

Bond Crash Could Result in Stock Bubble

We could have a big boost in equity markets for the next few years if it seems Trump is succeeding (winning, Trump would say).

Trump isn't afraid of large budget deficits. In addition to Fed gradually increasing its near historic low-interest rates, Trump deficits could result in even greater bond losses. This could result in large bond outflows into equities, which could eventually create an equity bubble that could burst.

Bond investors have benefited for over 30 years by lower interest rates, which increase bond prices in the market. Bonds have seen massive inflows since the end of the financial crisis. The scars from the financial crisis still run deep even though we've been in the midst of one of the greatest stock market uptrends.

The Debt Risk

Many economists project huge deficits from Trump's promises. Trump has said he loves debt, which in the private sector he can avoid by bankruptcy, but that doesn't work well as a nation.

The U.S. can borrow at near record-low rates today. Longer term and with the financing problems facing

Social Security and Medicare, without large “dynamic” benefits of debt resulting in much greater economic growth and higher tax revenues, we could face a serious future debt crisis.

The Wall of Congress – Especially Paul Ryan

Speaker of the House Paul Ryan decides what gets to the House floor. He may have to fight to keep his position as he is not immune to the ire from the Freedom Caucus, which chased former Speaker Boehner from Congress in 2015, and other Republicans upset over Ryan’s frigid treatment of Trump during the campaign.

Most of the “it will be great” promises of a faster-growing economy depend on huge increases in debt, which may hit the wall of Speaker Ryan who has fought for years for a balanced budget amendment.

Unless Ryan dramatically changes his views, he has very deep disagreements with many of the campaign promises of Trump.

Ryan backs free trade, since on balance it benefits global economics and the U.S. The rejection of the TPP trade deal potentially gives more power to China.

Ryan wanted relatively minor changes in TPP, noting the benefits of trade, especially for his home state (Wisconsin) where dairy and cheese exports fuel the economy. “We need to open those markets up and prevent them from being closed,” Ryan said.

Marketwatch says: “Trump has campaigned for trade barriers, tariffs, and protectionism, and everything we know about the global economy tells us that is always very bad for growth. The only matter to be debated is whether that was just stump-speech rhetoric, or whether the president-elect will actually follow through with it once he is installed in the White House.”

Ryan backs immigration reform and is against Trump’s deportation squads. Trump has already backtracked a bit on immediate deportation other than for criminals – which is the same focus as the current Obama policy.

Many of Trump’s promises were to “win”- perhaps not how he would govern. He changes his views frequently in whichever direction the political winds seem to blow. Another example is the “Great Wall of Mexico.” On 11/13 Trump says that well, it may just be a fence at least in some places. Now that he “won,” he may be realistic.

Although Ryan is also against Obamacare, Trump is moderating his “Repeal Obamacare on Day One” promise used to win. Now in governing mode he said a gradual transition is needed. How is any plan going

to keep the coverage for pre-existing conditions and children on parent’s policies, eliminate the mandate and somehow make it less costly by turning it back to the insurance companies? Trump proposes tax credits to buy private policies – but that reduces tax revenue and may need huge credits to be affordable. I doubt sales across state lines would do much to reduce premiums. Trump says, “It will be great, just watch.”

Obamacare is a mess and getting more expensive largely due to what had to be given to insurance and drug companies for their support. That fight lasted over a decade to get anything passed. Repeal might be quick if you ignore “replace.” Leaving it to the insurance companies means continuing to be paying hundreds of different insurance companies \$millions in compensation to hundreds of executives and maximize each company’s profits for shareholders. In general, I totally support the free-enterprise private economy. But for health care, we are about the only country that has tried to keep it largely in the private sector resulting in some of the highest cost care in the developed world.

Implications for Investments

The investment implications are risky, uncertain and complex. Which Trump will be President? Trump with toxic, divisive speeches that resulted in groups such as the Loyal White Nights of Pelham NC, KKK group holding a Trump victory celebration? Or, the more practical, business-minded Trump that those close to him claim he is in private.

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