



LENK LADNER
Investment Solutions

MARKET COMMENTARY

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Dow Jones Industrial Avg. **19,762.60**
2016(YTD) +13.4% 4th Qtr. +7.9%

Standard and Poor's 500 **2238.83**
2016(YTD) +9.5% 4th Qtr. +3.3%

No Easy Path - "People's minds are changed through observation and not through argument." Will Rogers, humorist.

Lesson from Yesteryear - On Halloween Day in 1938, the country was driven into near panic by a radio broadcast of "War of the Worlds.", which was the brain child of a theatrical neophyte, Orson Wells. The faux newscast, an early version of today's "fake news", with Wells acting as the announcer had many in the listening audience convinced the country was being invaded by aliens from another planet. Later, many were either upset or angry they had been hoodwinked by Well's hoax. (If you have an hour to spare, you can listen to the original program on the internet on You Tube.

The New War - Last summer the country was introduced to the twenty-first century version of that media event as Donald Trump and his daughter Ivanka descended the escalator at Trump Towers. At that point the novice politician began his "Twitter-centric" campaign for President, which continued through the primary resulting in his selection as the Republican Presidential candidate. This marked the beginning of a clash of political ideologies, rather than a sci-fi battle with aliens.

As the new conflict commenced, the strategies of Hillary and Donald soon became evident. The Democrats envisioned Hillary as continuing to pursue the ideals and policies of her predecessor, Barack Obama. Their reasoning was the majority of voters were satisfied with the progress of the past eight years and would accept Hillary as his logical successor. The Republicans, on the other hand, found themselves in an awkward position. Their party's nominee was a total outsider, who had managed to outflank seventeen party regulars including Jeb Bush, John Kasich, and Ted Cruz. The political class was unable to adapt to Trump's unconventional tactics, so he was dismissed as a distinct underdog as the Presidential campaign began. He was able to muster only half-hearted support of his party. Furthermore, he had little money and only a skeleton staff. It is easy to understand why Mrs. Clinton and her backers were so overconfident.

The Battle Commences - Hillary's first and perhaps fatal mistake was to spend an inordinate amount of time and resources highlighting Trump's temperament and inexperience, as well as her desire to continue Obama's policies. She failed to clearly state her own vision for the future of the country. She did highlight the fact she would be the first female president, but voters never had a clear sense of what she hoped to accomplish for them. In hindsight, Mrs. Clinton succumbed to overconfidence, due in large part to the polls and the overwhelming support of the media. Big mistake!

Trump Emerges - Although Trump appeared to be a long shot at the start of the campaign, he quickly identified key themes which clearly resonated with voters. They were jobs and the economy; immigration and the wall between the U.S. and Mexico; repeal and replace Obamacare; lower taxes; and rebuild the military. Next he initiated an aggressive schedule of speeches across the country to impart his message. His message energized his voter base and he won a convincing majority of the electoral vote even though Hillary prevailed with the popular vote. President Trump won round one of the new War of the Worlds.

Battle in the Trenches - The next phase of the war is now underway. Be prepared to witness a no-holds-barred struggle for the hearts and minds of voters. Republicans are flexing their muscles by exerting their power through the office of the President, who is employing executive orders just as his predecessor did, and the Republican majority in Congress has successfully parried any Democrat effort to obstruct. After such a devastating defeat, some objective observers have opined Democrats would be wise to step back and reflect upon their mistakes and reassess their message to voters, instead they have come out with guns blazing as they attempt to reestablish credibility with the voting public. Congressional Democrats have shown vociferous opposition to any Republican proposals, including the President's cabinet nominees. This hostile tone has been amplified by the Democrat rank and file, who have indicated their widespread anger on social media and through a growing number of angry demonstrations. These skirmishes for the middle ground will continue until the mid-term elections in 2018.

What Do Investors Know? Almost immediately after Donald Trump was elected as President in November, stocks began a steady rise which has continued to the present. The result is the Dow Jones Industrials, the Standard and Poor's 500 and the NASDAQ are all at all-time highs. One logical explanation is investors are encouraged by President Trump's initiatives to reinvigorate the economy. They see his determination to reform the tax code; promote job growth; and reduce the regulatory burden as leading to a brighter growth prospects. One economic topic, which has resulted in some heated exchanges is his approach toward trade, particularly as it related to Mexico and China. However on balance, the financial markets reflect confidence in the President's efforts to elevate the nation's growth trajectory.

Reality Check - Even if the Administration and the Congress manage to overcome the objections of the Democrat minority, any programs and ensuing legislation will take many months, if not years, to be fully implemented. Investors must also be prepared for the inevitable obstacles and delays, which can result in meaningful market corrections. In recognition of the recent market strength, it is worth recalling one of Wall Street's most familiar and basic tenets, "Buy low and sell high." As the stock market moves higher, valuation metrics become richer. For example, when stock prices move up more rapidly than earnings, price/earnings ratios rise. To place the current market rally in historic context, a review of a recent issue of The Value Line Investment Survey, dated February 3, 2017 indicates current P/E levels are twice the level they were at the last market low on March 9, 2009, and the dividend yields are half what they were on that same date (2.1% versus 4.0%). The conclusion is even though stocks continue to rise, they are very expensive now. Considering the advance since the election, investors should consider reviewing their holdings with the idea of either rebalancing their assets or taking some profits, especially if there is an anticipated need for cash within the next six to twelve months.

Bonds and other fixed income instruments have remained relatively stable in spite of the rally in stock prices, even with the Federal Reserve suggesting the possibility of three interest rate increases this year. With that number of increases in mind, it is wise to limit purchases to shorter maturities (i.e., less than five years). Another alternative to protect against rising rates is to consider using floating rate debt or funds that specialize in those instruments.

Annual Requirement - Around the Office – Each year at this time we offer you an updated copy of our Form ADV, Part 2, which we file with the Securities and Exchange Commission. Please let us know if you would like to receive a copy. We will send you a paper copy, but it is also available on-line at our web site – "lenkladner.com". For those of you looking forward to paying your taxes or receiving your refund, Schwab has sent the necessary tax information Wednesday, February 15th. Once you receive it, please contact us if you feel you are missing any information. Now is also a good time to arrange for a review of your account and plan for the year ahead.

JML