

# ADDING VALUE

Volume 15: Edition 4

Fourth Quarter 2016

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*Social media has two defects from the standpoint of disinformation. The first is that people tend to only read and follow things with which they already agree. The second defect is the sheer volume of noise on the internet. The future seems especially opaque, but that doesn't prevent anyone from having an opinion. It would be refreshing to return to a past time when information was presented in a more balanced, bi-partisan manner.*

## A MELODRAMA IN THE USA

On Election Day, November 8, 2016, we had tickets to the Opera Salome. The plot line, in typical melodramatic opera fashion, is that Salome agrees to dance nude for her stepfather if he agrees to present the Prophet Jochanaan's head on a silver platter. She did (dance nude). He did (cut off the Prophet's head). Earlier that morning, a copy of the latest issue of The New Yorker was delivered to the office. The "Talk of the Town" column, written by the editors of that magazine, began: "On November 8<sup>th</sup>, barring some astonishment, the people of the United States will, after two hundred and forty years, send a woman to the White House. The election of Hillary Clinton is an event that we will welcome for its immense historical importance and greet with indescribable relief." Well, astonishment we had.

We arrived home from the Opera to watch the unexpected drama of the election results being reported by the media. If possible, the results were more dramatic, than the most melodramatic opera. To the complete surprise of the media, pollsters, and most Clinton supporters, Trump was winning. As with the Brexit vote earlier this year, all of the "experts" were completely wrong.



*ADDING VALUE is mailed and posted on our website quarterly to our clients and friends. The intent of this publication is to share some of our more interesting views and research.*

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The Week, December 2, 2016

Jeffrey Tucker of The Foundation for Economic Education wrote this:

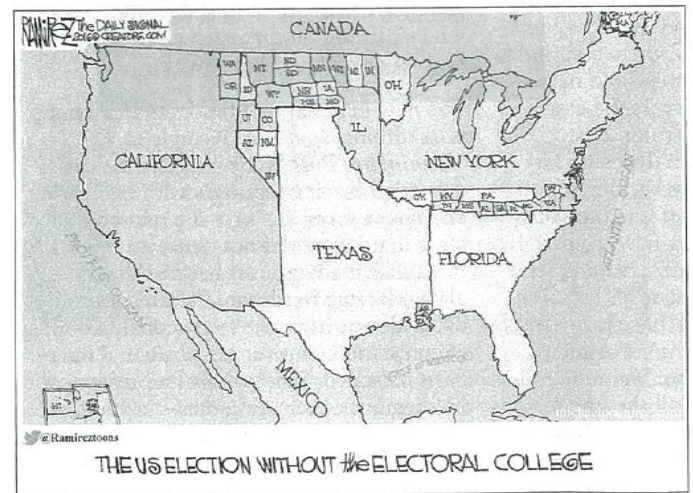
*“You might think that the greatest political, cultural, economic shock of our lifetimes, right here in the USA, would unleash a torrent of salient and incisive commentary. There’s been some good, some confused, some angry. But mostly what I’ve seen is a kind of mouth-open shocked...”*

*Trump triumphed over every bit of conventional and establishment wisdom on the whole of planet earth. What was once regarded as expertise lies in ruins. Not even people with skin in the game, those betting on the outcome, came close to being right. It’s the greatest smashing of a paradigm – a devastating crush of not only opinions, but every existing establishment left, right, and center I can imagine happening in real time”.*



*“I think it was an election year.”*

Howard Marks, CEO of Oaktree Capital Management, in his election newsletter titled “Go Figure!” wrote that turnout was below expectations in Florida, Michigan, Pennsylvania and Wisconsin, and the result in these states were largely responsible for the election surprise... a combined shortfall of just 113,000 votes in PA, WI, and MI resulted in Clinton’s demise. If she had won just 57,000 of those votes (or 0.4% of the 13.6 million votes cast there), she would be President-Elect today.



*The Week, December 2, 2016*

By current count, 126.1 million Americans voted in the 2016 Presidential Election, 3 million less than the number of voters in the 2012 election. The 126.1 million voters represent 56.8% of Americans that were eligible to vote, indicating that 96 million Americans that could have voted chose not to do so. The highest voter participation in the last 100 years was the 62.8% that voted in the 1960 election. (source: BTN Research)

However, by the ground rules that were in place for the 2016 Presidential Election, Trump won. Under the design of the Electoral College by the Founding Fathers, majority doesn’t rule. All states other than Maine and Nebraska allocate their electoral votes not in proportion to the candidates’ popular vote in the state, but rather on a winner-take-all basis. The Electoral College was purposely put in place by the Founding Father’s so that the most populous states would not wield all the power (NY, PA, and MA at that time and NY, CA, FL, and TX today). Our system gives everyone a voice.

Some commentators are making comparisons between the surprise election of Donald Trump in 2016 and the unexpected, pro-business victory of Ronald Reagan in 1980. As Barron’s noted in the November 28, 2016 issue:

*“There are important economic differences. In 1980 inflation was 14% and on its way down, and the dollar was at a generational low. Today*

*inflation is 1.6% and rising, while the dollar is at decade highs. In 1982 U.S. unemployment exceeded 10%, double today's level, and long-term Treasury yields were above 11%, almost five times as high as today's. Government debt as a percentage of gross domestic product was about 30% back then and roughly 100% now. The Standard & Poor's 500 index sold for nine times earnings, one-third its price ratio today."*

Everyone has an opinion on the results of this election. Today alone, these perspectives on the U.S. Presidential Election 2016 reached my desk:

**Our Thoughts on the U.S. Election**  
(Fairpointe Capital)

**The Sun Will Rise Tomorrow**  
(First Quadrant)

**Comments on the Trump Election**  
(Harding Loevner)

**A Trump White House: Potential Market Impacts of the US Election**  
(Loomis Sayles)

**U.S. Election: Tracking the Trump Effect**  
(Lord Abbett)

**Our Thoughts on the U.S. Election**  
(Pictet)

**Large Cap Growth Strategy: Post-Election Thoughts**  
(Renaissance Investment Management)

**Thoughts on the U.S. Presidential Election**  
(River Road Asset Management)

**A Trump Economy**  
(Smith Group Asset Management)

**Trump's Victory Should Boost Growth, But Risks of Protectionism Have Risen**  
(Trilogy Global Advisors)

It seems to us that the rush to draw historical perspectives is premature (and possibly wrong) as is the rush to prognosticate. The election of Trump has introduced all kinds of uncertainty.

At least for now, a Trump presidency seems ready to focus on:

- A reduction in corporate tax rates;
- A restructuring of individual tax rates;
- A reversal of financial regulations;
- A revision of healthcare regulations;
- A re-negotiation of trade agreements; and
- A lessening reliance on expansionary monetary policy (quantitative easing).

Trump does think more like an investor than a bureaucrat. So there is some reason for optimism, especially for the total US stock market.

One of the managers in most client portfolios (Tweedy, Browne) offered sensible advice in their latest semi-annual report:

*"From time to time people ask us what they should do (we are flattered they should ask) and our general response is not unique. First, you are in a 10,000-meter race; don't measure your progress by each 100-meter lap. Second, remember what you are investing for – it should extend your time horizon, which is a good thing to do. Third, don't carry too much debt – if you don't owe anybody anything, they can't tell you what to do. Fourth, keep several years of living expenses in the bank. While it won't earn much today, it will help keep you calm if there is a financial storm. Fifth, as Stuart Alsop once said in so many words, when you open the paper, turn*



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*to the sports page first; then, go to the news – it will help you emotionally, and controlling your emotions is an important part of this game. And finally, and perhaps somewhat self-serving, try to understand how the person you have entrusted some of your money to makes decisions. It should help you make sense of the world when it is seemingly making no sense and help you make an informed decision.”*

After traveling to over 85 countries and counting, we have the confidence and experience to say, unequivocally, that America is the best place to live in the world.

Today, the average human being in the world lives far better than at any time in history despite our civilization having encountered wars, famines, plagues, genocides and natural disasters. Our Founding Fathers created a system of democracy in the USA that is the envy of the entire world. We are confident that this economic and democratic foundation will continue to work for us, our children and our grandchildren.

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