

**January 24, 2017**

**Year End 2016**

What a year it has been. The discontent of a large portion of our country shined through on Election Day with the victory of Donald Trump. Those who wanted change will see their wishes come true, yet the type of change we'll experience remains to be seen.

President-elect Trump takes office towards the end of an era where the underpinnings of our economy and market were somewhat predictable. If we look back at the political, social and economic environment during Albion's early years, change happened more slowly and responses to change were more insightful than reactionary. News cycles, product cycles and investment cycles were all longer than they are today, and change was more rooted in fundamental information than headline flashes. We have all witnessed the pace of change accelerate both in our globalized world and daily lives. The causes for this are many: technology, political divisiveness, 24-hour news cycle and others. We began to see the rate of change rapidly increase for the economy and the markets over a decade ago creating less and less predictability. This

has led to a period where companies, industries, and entire market sectors make big price moves, both positive and negative, with little regard to long-term underlying fundamentals.

Now we are witnessing the next level. Tweets by President-elect Trump target specific companies and industries, causing significant price movements and even less certainty that individual securities will track closely to their underlying fundamentals. All this has led to a big disconnect between company fundamentals and market valuation. We acknowledge these changes and continue to work diligently on our clients' behalf to craft investment portfolios that capture what the financial markets, even rapidly changing markets, have to offer over the longer-run.

It is not just in the financial markets where President-elect Trump threatens to upset the status quo. He spoke often during the campaign and transition of his intent to reduce personal and business taxes, eliminate the estate tax, cut layers of regulation, embark on rebuilding of infrastructure, and alter the way many consumers pay for their health care. Of course, as of now, it is all

campaign promises. It remains to be seen what the specific policy details of the incoming administration will be and the degree to which Congress will support those initiatives. We will stay abreast of developments that impact financial planning and expect to be working closely with many of our clients to adjust financial plans as needed.

Despite the evolution of the financial markets toward continuous change we know there are millions of Americans who rise each day and head off to work motivated to find faster, better, and cheaper ways to provide us all with products and services. We remain optimistic about our country.

### **Economy & Markets**

In the United States, the fourth quarter ushered in the results of a much-anticipated election, a return to corporate profit growth (reporting on third quarter results) for the first time in several quarters, and the second Federal Reserve interest rate hike since mid-2006. To the surprise of many, equity markets responded favorably to all three developments. But why? Given all the hand-

wringing from forecasters regarding these hurdles, how is it that stocks took them by surprise?

Election uncertainty was front and center for the whole of 2016. The widely accepted tune that a Hillary win would be status quo for the markets, while an unpredictable, wild-card Trump win – at least over the short-run – would be disastrous, permeated most investment thinking. The market’s reaction on election night demonstrated just how short the “short-run” can be in equity markets. After a nearly 1,000 point plunge in the DOW futures as election results rolled in, the market abruptly changed course as investors digested the possibility that a Trump administration may not mirror the more unruly candidate Trump, but rather it may be pro-business in nature and thus highly favorable to economic growth and corporate profits. A more affable tone during the President-elect’s victory speech late into the night helped cement this view for investors.

The reality is nobody knows what a Trump administration will bring. And, indeed, there are numerous political risks – i.e., more questions than answers – as we look out over the new administration and its

path forward. How well will Congress work with the new President? Will they pass tax cuts, and, if so, what will they look like? Will they increase spending on infrastructure and / or other fiscal priorities? Are business regulations going to be rolled back in earnest and reduce the cost of doing business? Will this all spark more private investment? Equity markets are anticipating at least a portion of this to occur, but actual implementation is far less certain. Meanwhile, investors may be underappreciating the potential damage from isolationist trade policies, the stoking of geopolitical tensions, and potentially bellicose “Commander-in-Tweet” policy prescriptions. It’s impossible to know the outcomes of a new government. But we feel confident that while some optimism is warranted, it’s likely to be a more volatile environment.

Many who misread the election and markets’ reaction also overlooked the positive turn in corporate profits. For S&P 500 companies, most recent results showed a +3% year-over-year expansion in aggregate earnings, despite consensus expectations of a decline. A return to profit growth is invariably good for stock prices. Commerce in America is healthy, and provided the economy

continues along its present expansionary course, we remain optimistic on the earnings power of American business. Albion companies – on balance – logged even stronger rates of corporate profit growth in the most recent quarter (and for the year).

Monetary policy remains accommodative. Nevertheless, at the Fed’s last confab of 2016 (December) the FOMC decided for only the second time in over 10 years to raise interest rates by 0.25% to 0.75%. The market’s takeaway was that the Fed raised rates for the “right reason” – that is, the general economy is improving and wages are rising. While it’s clear that if the current economic expansion continues, the Fed is probably on the path towards policy normalization (i.e. higher interest rates). Yet with the current very low levels of both nominal and real interest rates the Fed has room to raise rates without significant risk to the economy.

## **Planners' Corner**

### **The Mortgage Payoff Dilemma**

For many Americans, a home represents their most significant asset. Yet in most instances a portion of the home value is offset by their largest liability – a mortgage. We regularly work through the decision of whether or not to pay off the mortgage with our clients and, in the process, clarify the difference between the academic-mathematical answer and the quality of life-emotional answer. The academic-mathematical answer is clear: if your after-tax return on invested funds is greater than the after-tax cost of the debt, you should keep the mortgage for as long as possible. Yet reality is that the cost of the mortgage is certain (unless you have a variable rate loan) and the after-tax return on investments, while likely higher, is uncertain. Some families are willing to accept this uncertainty. Others are not. At some point the bigger issue is about quality of life. If a long-term goal has been to own your house free and clear and you are uncomfortable having debt, then by all means we need to come up with a plan to achieve that goal.

But what happens next? You have now eliminated your mortgage payment – what should you do with the freed up cash? We believe it's important to frame the monthly mortgage payment as increasing your net worth – eliminating debt increases your net worth. You've established the habit of monthly savings through the mortgage. We recommend continuing to build your net worth by channeling the monthly funds that used to be absorbed by the mortgage into an investment account. Recently, one of our clients did just that. They used their investments and savings to eliminate the mortgage balance and the associated \$2,000 monthly payment – a long term goal of theirs. But rather than incorporate the monthly payment into consumption, they have redirected the payment back into their investment account to build up more funds for retirement. They've accomplished two goals; the elimination of mortgage debt and a program to continue to strengthen their financial security.

### **Flooded with Credit Card Offers**

The beginning of the New Year is a great time to get organized and reduce clutter. Here is an idea that might help. Most of us are flooded with preapproved credit card offers, offers that we will

never use. If you decide you do not want to receive prescreened offers for credit and insurance, you have options. You can opt out of receiving these unsolicited offers for five years by calling 1-888-5-OPT-OUT (1-888-567-8688) or by visiting [www.optoutprescreen.com](http://www.optoutprescreen.com). The phone number and website are operated by the major consumer reporting companies and give you a tool to cut off these unsolicited mailings. You can also permanently opt out by submitting a request at [www.optoutprescreen.com](http://www.optoutprescreen.com). To complete your permanent request, you must sign and return the Permanent Opt-Out Election form which will be provided after you initiate your request online. Opting out not only unclutters your mailbox, but also saves paper! Please note that doing this has no effect on your ability to apply for or obtain credit cards you want.

### **ALBION COMMUNITY**

The annual Forty Under 40 program by Utah Business Magazine (UBM) honors Utah's up-and-coming professionals rising through the ranks at record speed. Jason Ware, Albion's Chief Investment Officer, was conferred this honor by making the 2017 list. Jason will join the other 39 honorees in accepting this award at a Grand America luncheon on February 23rd. Jason's promotion to CIO, hard work and contributions toward Albion's success, as well as his years working with the national financial press - including being a regular CNBC contributor - were all factors in UBM recognizing Jason for this esteemed honor.