

the Connection

A Quarterly Review

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Will The Surprises Continue

The outcome of the 2016 election was a surprise to all. No one expected these results....Republicans or Democrats. Republicans control the House, Senate, Presidency, and soon the Supreme Court. The last 8 years were split, with the House and Senate being Republican, and the Presidency and Supreme Court Democrat. At this point we are unsure of what Donald Trump represents. There are not a lot of facts to go on, but there are a few clear indications that we can write about.

Security, and Cyber-security, two very large and looming “threats” to the American way of life. We need tighter controls on our border, related to terrorism, sex-trafficking, drug trade and international criminal behavior like money-laundering and fraud. Cyber-security falls into this, especially in the fraud and money-laundering areas. As some of our clients know first-hand, when something bad happens on your computer at home or at your work place it can be fairly costly, and extremely irritating. Disinformation campaigns, emails impersonating your work or bank, news that isn't real, fake wire transfers, there is a huge list of things enterprising (and unethical) people can use to part you and others from money and information. At work, we are exposed to at least four or five articles a day that are patently false. We have liked companies exposed to Cyber-security for a long time, and there have been some substantial bumps in those companies. In that interest, we feel companies in data security and internet threat detection should be high on the list of investors looking for revenue growth.

Donald Trump's cabinet has four appointees from Goldman Sachs and his Secretary of State appointee is from Exxon Mobil. He talked about deregulating energy and financial companies – and paired that with cutting corporate taxes to create jobs. The cabinet appointees indicate, obviously, that he was serious about deregulation, and money should come home from overseas due to corporate tax reform. We have pointed this out a few times, the U.S. corporate tax rate is very high, much higher than the rates in Europe. The plan is to incentivize companies to increase investment in the U.S. by making the burden of profit less.

More likely however, with a fully employed work force, the lower corporate taxes will lead to larger dividends and share buybacks, leading to more money in the pockets of the investor class. De-regulation of energy production and financial companies should drive profits higher and make loans more available, and could also curb any oil price upward pressure because supply for oil and natural gas would increase. The place we see substantial job creation, after de-regulation and corporate tax cuts would be in the energy sector. Not coal, as promised, but Natural Gas and Oil. So long as the production and transportation runs through U.S. soil with no populations (and hopefully not a Native American sovereignty), there should be no problem increasing fossil fuel production. Whether or not we should increase fossil fuel production is an entirely different, and somewhat troubling question.

Where we start to become cautious, short term, with a Populist president, is in international trade. Mexico is already in trouble, with plants closing (Ford), walls threatened, and border security a top priority. Tariffs and trade wars do not economically help anyone for long periods of time. They prop up non-competitive business artificially, that then typically fail. China will be worse off if we impose tariffs and damage their ability to sell to the U.S. Others will be worse off as well i.e. Mexico, Germany, Ireland, France, and many others. That won't make the U.S. better, as we will likely be unable to sell to those countries, and our prices domestically will rise. We will still buy t-shirts imported from Mexico, they will just be more expensive. The initial tariffs would most likely strengthen the dollar, giving better export power to other countries, and may effectively offset the tariff. However, in the long run, if the world loses confidence in the U.S. because of isolationism, it would eventually damage our ability to be a reserve currency, and could severely limit the Treasury's ability to monitor and print currency. Trade wars also don't help us with foreign policy, leaving us few allies to work with abroad as we isolate ourselves.

Health Care will again be a major topic for the administration to deal with. The republicans are going to pull Obamacare apart and there will be casualties from

deconstructing the Affordable Care Act. We don't know who the casualties will be yet, but companies are going to lose money in the resulting confusion lasting for several years. Our money thinks that the first line of casualties will be for-profit hospitals, followed by health insurers. For-profit hospitals are questionable, but without reimbursement, it will get ugly. They have already invested in their infrastructure to support more patients, if those patients stop coming – bad; If those patients keep coming but stop paying – worse. The hospitals will then lean on the insurers to renegotiate their reimbursement, which will drag the insurers down. This certainly will impact Medicare, Medicaid, coverage costs, and other auxiliary health services. We are hopeful that it does not affect Social Security and other big ticket budget items, but we shall see. The winner in healthcare may end up being drug makers, who have been on everybody's political hit-list for the last 24 months. They may emerge from this relatively unscathed. None of the effects above are political effects. When rules change on companies drastically in a short period of time, it is hard to adjust. The U.S. should act prudently because there could be severe knock-on effects from radical change.

Fortunately, the U.S. is not governed by Murphy's Law, and has rules to make processes slow and painful. There is a long list of agenda items that could go wrong, and conversely a long list of items that could go right. We are trying to look at the most likely outcomes that could occur due to Trump's surprise victory. However, please bear in mind that economic cycles are multi-faceted and have limited exposure to politics. International cooperation and trade is happening because it is economic to do so, not political.

The Act of Giving

Below is an updated list of some organizations our clients are helping today. Please let Barbara know the name of organizations you care about and we will include them on the list next quarter.

Send an email to bcorley@gencappm.com

All Local Food Banks
www.sfmfoodbank.org
www.shfb.org
www.foodbankccs.org

Bloom Marin
www.bloommarin.org

Maya's Music Therapy
www.mayasmusic.org

Canal Alliance
www.canalalliance.org

Friends of the Urban Forest
www.fuf.net

Guide Dogs for the Blind
www.guidedogs.com

Doctors without Borders
www.doctorswithoutborders.org

The Nature Conservancy
www.nature.org

National Kidney Foundation
www.kidney.org

Guide Dogs of America
www.guidedogsofamerica.com

Golden Gate National Parks Conservancy
www.parkconservancy.org

Fine Arts Museums of San Francisco
www.famsf.org

Canine Companions for Independence
www.cci.org

Alzheimer's Association
www.alz.org

The Foundation for Rotary International
www.therotaryfoundation.org

Redwood Empire Food Bank
www.refb.org

Sonoma Land Trust
www.sonomalandtrust.org

Friends of the Earth
www.foe.org

Eastside College Prep
www.eastside.org

Northern Sierra Partnership
www.northernsierrapartnership.org