

Feb 10-17

Good Afternoon to All

Just a brief note as little has changed since my last note to you all three weeks ago.

The markets continue to reach RECORD highs over the very positive rhetoric from President Trump.

Additionally, the 4th quarter earnings have been decent although CEOs outlook or forward guidance for 2017 has been weaker than expected.

Investors continue to look past the Trump “potential problems” such as trade conflicts with Mexico-China-Australia and the immigration kick back and instead are pricing in that all the good promises (taxation, deregulation and infra structure spending) will be a slam dunk in 2017!

Consequently, we see record high optimism on all Investor and CEO surveys and investors are buying into these markets despite the frothy valuations. Today the VIX “Fear Gauge” was at an extreme low of 10.56---that is rare folks and tells me that GREED is the theme of the day as is complacency and this will drive markets higher in the short term. BUT it is also a red flag for me that the Herd is all going one way, which is a time to consider taking the other side of this bet!

The most recent super star to comment on this was Hedge Fund manager Seth Klarman who said in a recent letter that the markets are at “perilously high valuations” !! (perilous = “great danger” in Webster’s dictionary fyi). This is one guy you MUST listen to.

Not much has changed since my Newsletter three weeks ago—Trump remains in the “100 day honey moon period” where he can do no wrong. The judgement day will come in the next 1-2 months when investors start weighing the Trump positives vs the negatives and whether he can bring decent paying jobs back to the US, and can he help the middle class wage freeze? The middle class must be able to spend-consume more and this requires higher wages---will the Trump billionaire associates be willing to allow higher wages (and lower Corp profits) or will they continue to focus on Financial Engineering such as share buy backs???

I have to admit that I have become LESS optimist over the last two weeks simply because I was hoping that he would play down some of the platform negatives such as trade and immigration, BUT instead he has aggressively moved on all fronts and now my concern is that we will see more negative economic TRUMP action before we see the positives???. If this happens we could see weaker markets in the second half of 2017 as many of the positives may not materialize till mid 2018 versus the negatives which are now Front and Center every night on the news??

We know he cannot change the Elder Boom economic drag and most likely will make the DEBT problem worse so he better be able to help the weak productivity problems that ail the US and the stagnant wage growth and this needs to materialize in 2017! Can this happen?

The Jury is still out on this but thus far he has raised more Negatives than Positives AND his Negatives are real and factual (i.e. immigration ban) versus his positives thus far which are 99% jaw boning and rhetoric...

The bond market is agreeing with me as the 10 year yield has fallen over the last few weeks (i.e. less deflation and more economic risk) and gold is rising indicating more risk and uncertainty

## CONCLUSION

I may become more defensive sooner than I had thought if we see these Trump negatives becoming more center stage over the next few weeks and if the markets continue to climb higher on mostly hyped issues (vs factual).

With this type of "Presidency" we MUST be willing to keep an open mind to all outcomes but there will come a judgement day at some point in the next 1-2 months. Markets are priced for PERFECTION at these valuation levels and so Trump needs close to straight A's going forward.

We will see how this plays out...there are many promises that could help the markets (and maybe the economy) but the next big issue is to see how the White House and Congress get along and early indications are not good.

Either way I want to remain over all defensive in all client accounts (because of all the reason covered in the last Newsletter) until we have more clarity on this very Uncertain President!

## ATTACHMENTS BELOW

1. Chaos-Uncertainty=TRUMP—Barry Ritholtz
2. Seth Klarman—smartest Hedge Fund guy out there...good read
3. Comstock—market long in the tooth
4. Caution on Payroll REVISIONS—not a good trend
5. Stephen Roach on China and USA
6. Real Disposable Income remains weak
7. History of low Interest rates –we may have another 5-10yrs!!!
8. Why India
9. Advisor Perspective summary on Investor denial
10. Goldman Sachs on where valuations are 98%tile !!!! Yes richer than 98% of ALL MARKETS—that is Dangerous folks...and my bet is its going higher...

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