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INSIGHTS & OBSERVATIONS

YOUR GUIDE TO FINANCIAL MARKETS AND INVESTMENTS **December 2016**

Welcome back. *Around the turn of the century a bandit rode in from Mexico, robbed a small town Texas bank, and fled back across the border. A Texas Ranger picked up his trail and nabbed him in a Mexican village. The bandit spoke no English and the ranger no Spanish, so another villager was asked to translate.*

"Ask him his name," said the ranger.

"He says his name is Jose," said the interpreter.

"Ask him if he admits robbing the bank," said the ranger.

"Yes, he admits it."

"Ask him where he hid the money."

"He won't tell me."

Levelling his pistol at Jose's head the ranger said, "Now ask him again where he hid the money."

Jose quickly blurted out in Spanish, "The money is hidden in the well in the village square."

"What did he say?" demanded the ranger.

The interpreter replied, "Jose says he is not afraid to die!"

With a nod to US market strategist Jeff Saut for the preceding story, the US election outcome and subsequent stock market reaction definitely requires some translation.

You will recall a few short weeks ago the consensus was twofold: Hillary would certainly win, however should Trump somehow get in, the stock market would immediately plummet. Ahem.

To me the stock market's positive reaction to this surprise election outcome is the most significant news in many years. Clearly much of the US media was providing its usual focus on bad news, and the dire predictions regarding a possible Trump win were everywhere. Now, with the unpredicted outcome in hand, much of the media is 'analyzing' how Trump will be good for the US economy, using this to explain a stock market surge they explicitly denied as even being a remote possibility.

Having started 'following' the media as a 10 year old paperboy I generally am no longer surprised by this sort of news coverage, however the last few weeks have set new lows for journalistic credibility. Once again: media's only focus is presenting the most negative and dramatic stories in order to sell newspapers and advertising space.

In our feature article this month we get a thoughtful perspective on the US election implications from the world's largest hedge fund manager, a man noted for his success in profiting from major shifts and market trends.

Finally from Karen, Andrew, and myself, very best Happy Holiday wishes to all of you and your families!

Philip

December's Articles

The fascinating US election outcome will be scrutinized for many decades yet to come. Certainly it will go down as a defining moment in the rise of populism around the world, and a highlight for those justifiably angry with the political establishment. Next up for the disgruntled after Italy's strong 'No" vote in this month's referendum: French and German national elections next year.

In the article linked below we hear from **Ray Dalio**, manager of a huge US-based hedge fund. His view: we likely are on the cusp of a significant change to the US and world economy based on Trump's win. If true, it may lead to a friendlier economic and business environment which could last for years, and reverse very long term trends like falling interest rates. The ramifications of this shift – if it occurs – would be huge for all investors.

Interest rates and their direction are the foundation used for determining the value of stocks, real estate, pensions, etc. After 35 years of steadily declining rates, a reversal in this powerful trend seems overdue and would be a once in a generation moment.

As you'll read it is early days yet, but the likelihood of this seismic shift seems to be growing quickly and investors are riveted to every snippet of relevant news. To put it mildly, 2017 should be extremely intriguing!

https://www.linkedin.com/pulse/reflections-trump-presidency-one-week-after-election-ray-dalio

India recently made a very unusual decision which deserves a closer look. In early November the government announced that overnight their two largest denomination bills – the 500 and 1000 Rupee notes – were banned and holders were forced to exchange them for smaller bills.

India has a huge underground cash economy and the unpaid taxes are significant, which was the rationale for the sudden move. Unfortunately millions of honest citizens have been harmed by the decision as you'll see in the article linked below, and undoubtedly it could have been implemented much more carefully.

Less mentioned is another government motive being pursued in jurisdictions like Sweden, a desire to create a 'cashless' society. With its pros and cons, this trend alarms many and may become a greater force in future as government's look to maximize taxation of citizens worldwide.

http://www.vox.com/world/2016/11/29/13763070/india-modi-cash-demonetization-protests

WHAT THEY SAID

"It's no exaggeration to say that the undecided could go one way or another."

George Bush Sr

I will be away from the office **December 12th to the 27th**. Karen and Andrew will be here throughout the holiday stretch, which traditionally is a very quiet time for markets and investors.

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