TD Wealth

Private Investment Advice

The Charter Group Monthly Letter

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Economic & Market Update

CNN Trump vs BNN Trump[1]

The political impact of Trump can be very different from the investment impact of Trump.

Since the inauguration of President Donald J. Trump, there have been massive marches in cities around the world, demonstrations at airports across the U.S., gobsmacking presidential executive orders, endless satirical material, and TV political pundits with their hair on fire for 24 hours a day. Watching the news has been like consuming political drama and comedy through a fire hose. Supposedly this is want we want. News producers would not be feeding us this stuff unless we were tuning in to watch. Our eyeballs pay for their salaries via the advertising space that they sell.

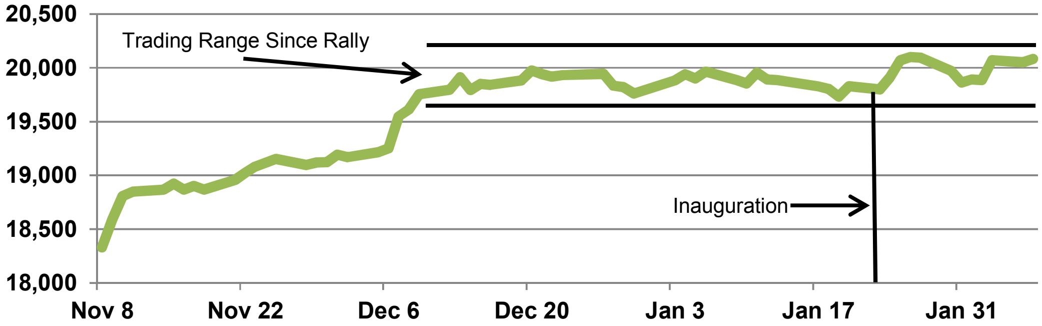
[1] BNN is the Canadian cable business channel, Business News Network

Watching the news, it might be easy to conclude that it is time to cash out of investments and run for the hills. Things look uncertain, unpredictable, and volatile as people's emotions are by influenced by presidential speeches, interviews, and 2 am tweets.

Despite all the Trump drama in the general news, stock markets are mostly higher since the election.

However, by shifting away from the general news coverage and towards the financial news coverage, a different reaction begins to emerge. From election night to mid-December, the Dow Jones Industrial Average (DJIA), which is comprised of large U.S. stocks, was up over 9% before settling into a fairly narrow trading range (**Chart 1**).

Chart 1:
DJIA Since the 2016 U.S. Presidential Election

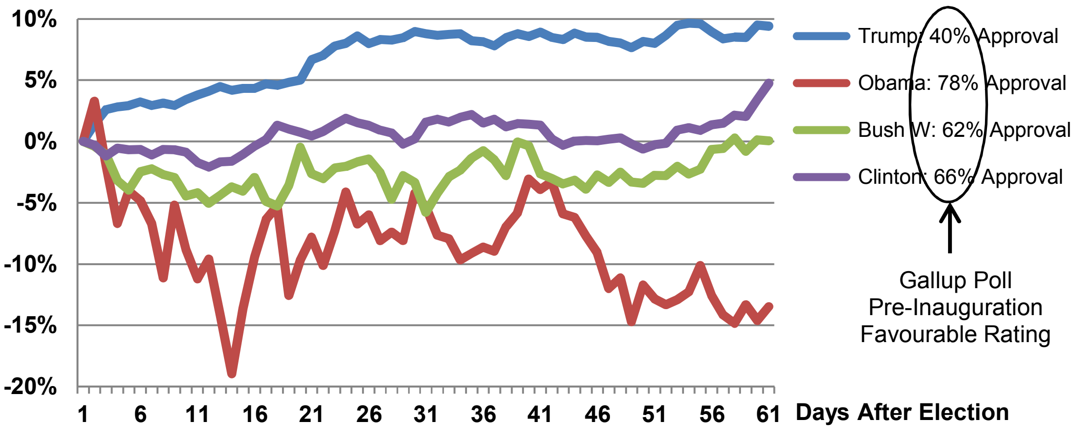


Source: Bloomberg Finance L.P. as of 2/7/2017

We can also contrast the performance of the DJIA over the first 61 days post-election for Trump compared to the last four presidents following their first-term election (**Chart 2**). From the Chart, we see that the approval rating of the President-elect prior to

The approval rating of a President-elect appears to have little bearing on stock market performance.

Chart 2:
DJIA Performance: First 61 Days After Initial Election



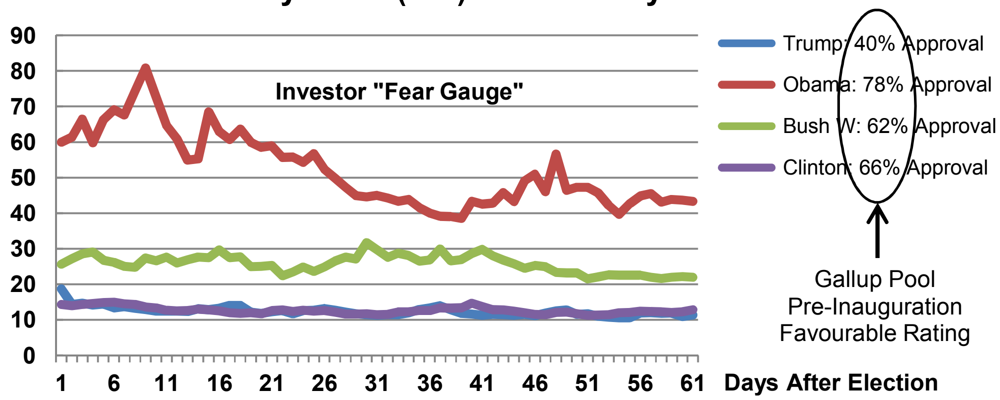
Sources: Bloomberg Finance L.P. and Gallup, Inc. as of 2/7/2017 inauguration has no bearing on the performance of U.S. stocks.[2]

Another way of looking at investor sentiment is to examine "expected" volatility (**Chart 3**). This is akin to the amount of fear that investors are feeling at any one moment in time. Again, the amount of fear appears to have no relationship to the approval rating of any of the last four Presidents-elect. Surprisingly, the level of investor nervousness following the election of Trump is almost as low as it was when Bill Clinton was first elected. It is also interesting to note that investor nervousness was at an all-time high right after Obama was elected in 2008 as this was in the midst of the subprime mortgage crisis in the U.S.[3] The bottom line is that it did not matter who the President was or how high his approval rating was.

The approval rating of a President-elect also appears to have little bearing on investor nervousness.

Chart 3:

CBOE SPX Volatility Index (VIX): First 61 Days After Initial Election



Source: Bloomberg Finance L.P. and Gallup, Inc. as of 2/7/2017. CBOE: Chicago Board Options Exchange

A final chart worth noting illustrates that since World War II, the 1st calendar year after a presidential election is a good one on average (**Chart 4**). Anecdotally, this may result from the optimism in reaction to a fresh start. It is a time to replace ideas that were not working well with new ideas. However, the 2nd calendar year after an election tends to be a weak one. Investors begin to demand results and discover that the President has over-promised and under-delivered as usual. We could see a repeat of this pattern if Trump's spending ideas for job-growth don't work as well as advertised and all that remains is more federal debt and higher interest rates.

Since WWII, the 1st calendar year after a presidential election is a good one on average.

The 2nd calendar year is notably weaker than the 1st on average.

So, do historical patterns guarantee that 2017 will be a good one in the stock market? Absolutely not. Things like a shooting war in the South China Sea or skirmishes

[2] http://www.gallup.com/poll/201977/trump-pre-inauguration-favorables-remain-historically-low.aspx
[3] The CBOE SPX Volatility Index has ranged from a high of 80.86 to a low of 9.31 since its founding on January 2, 1990.

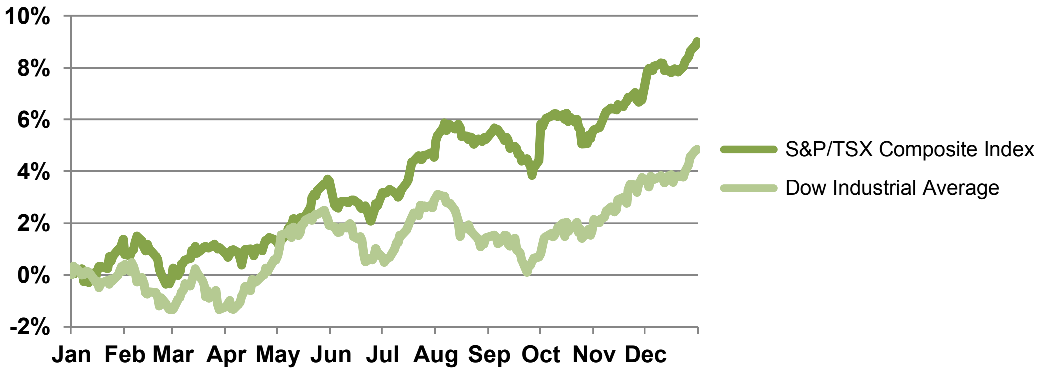
between NATO and Russian troops in the Baltics could easily upset the markets. However, these events are often like earthquakes: everything is fine, until it's not. It is not really possible to model these kinds of events into a portfolio strategy.

Events can always blindside a new President and have a major impact on the markets.

Apart from any sudden developments, a new President basically inherits the realities of the world, whether those are economic ($20 trillion in U.S. federal debt), social (growing inequality), or geopolitical (China, Russia, North Korea). Remember, Obama, despite his popularity, couldn't do anything about stock markets diving to decade-lows during the subprime mortgage crisis. Over time a President can make contributions that will create minor changes in the country's economic trajectory, which will then have some impact on investments. However, the inertia of the trends that the President inherits tends to control a new President, rather than the President controlling the trends.

However, the trends that a new President inherits have a tremendous amount of inertia and can't be easily changed.

Chart 4:
Stock Markets in the Calendar Year Following a U.S. Presidential Election



Source: Bloomberg Finance L.P. as of 2/7/2017

Immediately following the election on November 8th, there were a number of lessons provided by the actions and words of some very intelligent people. In the early morning hours of November 9th, Paul Krugman, a Nobel laureate in economics, wrote in The New York Times: "If the question is when markets will recover, a first-pass answer is never." [4] Billionaire hedge-fund manager George Soros rushed in and placed some bearish bets which cost him nearly $1 billion in losses.[5] In contrast, Warren Buffett, who campaigned for Hillary Clinton, bought more stocks, which helped add to his profit from the post-election rally.[6] It appears that only one of these three individuals was able to look past "CNN Trump" and invest based on "BNN Trump."

Investors that reacted adversely to the results of the November election paid a high price with respect to performance.

Were their decisions emotional or rational?

[4] https://www.nytimes.com/interactive/projects/cp/opinion/election-night-2016/paul-krugman-the-economic-fallout
[5] https://www.wsj.com/articles/billionaire-george-soros-lost-nearly-1-billion-in-weeks-after-trump-election-1484227167
[6] http://www.cnbc.com/2017/01/31/warren-buffett-purchased-12-billion-of-stock-since-trump-election-victory.html

Model Portfolio Update[7]

The Charter Group Balanced Portfolio
(A Pension-Style Portfolio)

	Target Allocation %	Change
Equities:		
Canadian Equities	15	None
U.S. Equities	34	None
International Equities	11	None
Fixed Income:		
Bonds	28	None
Alternative Investments:		
Gold	7.5	None
Commodities & Agriculture	2.5	None
Cash	2	None

No changes were made to The Charter Group Balanced Portfolio's target asset allocation or to the individual investments during January.

No portfolio changes during January.

The story of the month was the strengthening of the Canadian dollar versus the U.S. dollar. Unfortunately, this detracted from the Portfolio's results because of the sizable weighting to U.S. stocks. The U.S. dollar was also weak against most of the major currencies in response to Trump lamenting about the recent strength of the U.S. dollar and its negative impact on America's trade balance.

A stronger Canadian dollar had the most negative impact on the Balanced Portfolio.

Gold made a positive impact on the Balanced Portfolio during January as investors flocked to the yellow metal when they became concerned over Trump's economic comments and tweets. In times of uncertainty, all paper currencies can look a little precarious and gold becomes a safe-haven destination.

Higher gold prices had the most positive impact.

[7] The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of 5/1/2016. The asset allocations of individual clients invested in this Portfolio will differ because of the relative performance of the asset classes since the last rebalancing and because of differences in the timing of deposits and withdrawals. The Balanced Model Portfolio is part of a sequence of five portfolios ranging from conservative to aggressive: Conservative, Balanced Income, Balanced, Balanced Growth, and Growth.

We are still in a honeymoon period with the new Trump administration. American corporate profits are still decent and the economic and employment statistics are still within ranges that are acceptable to investors. Once we get past the first 100 days of the Trump administration there could be a few higher hurdles to navigate. The possibility of interest rate increases could become more apparent and investors could begin to look for clues as to whether Trump's policies are gaining traction or not.

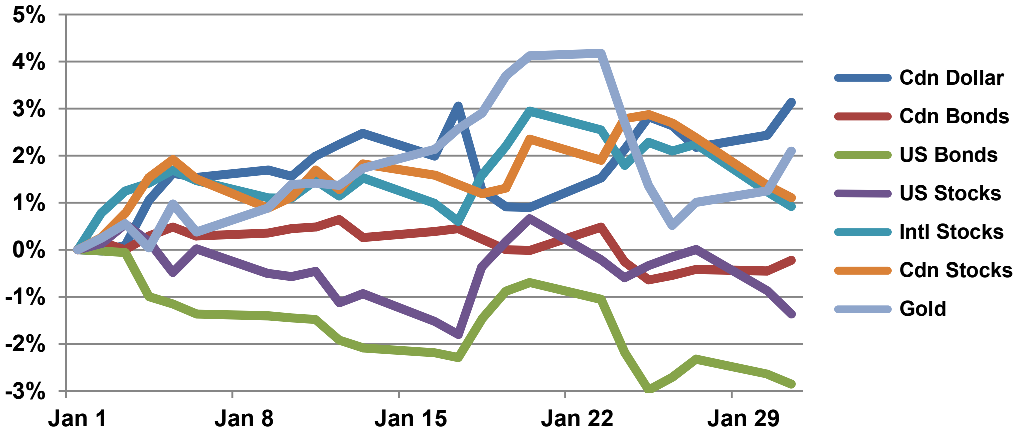
The investor honeymoon with the Trump administration continues.

However, things can become more testing after the 1st 100 days.

Below is the January 2017 performance of the asset classes that we use in the construction of the Charter Group Balanced Portfolio (**Chart 5**).[8]

Chart 5:

January 2017 Performance of the Asset Classes (in Canadian



Source: Bloomberg Finance L.P. as of 2/7/2017

[8] Source: Bloomberg Finance L.P. – The Canadian dollar rate is the CAD/USD cross rate which is the amount of Canadian dollars per one U.S. dollar; Canadian bonds are represented by the iShares Canadian Universe Bond Index (XBB); U.S. bonds are represented by the iShares Core U.S. Aggregate Bond Index (AGG); U.S. stocks are represented by the iShares Core S&P 500 Index (IVV); International stocks are represented by the iShares MSCI EAFE Index (EFA); Canadian stocks are represented by the iShares S&P/TSX 60 Index (XIU); Gold is represented by the iShares Gold Trust (IAU).

Top Investment Issues[9]

Issue	Importance	Potential Impact
1. China's Economic Growth	Significant	Negative
2. Canadian Dollar Decline	Moderate	Positive
3. Long-term U.S. Interest Rates	Moderate	Negative
4. Canada's Economic Growth (Oil)	Moderate	Negative
5. U.S. Fiscal Spending Stimulus	Medium	Positive
6. U.S. Foreign Policy Uncertainty	Medium	Negative
7. Massive Stimulus in China	Medium	Positive
8. Short-term U.S. Interest Rates	Light	Positive
9. Japan's Money Printing	Light	Positive
10. Europe's Money Printing	Light	Positive

[9] This is a list of the issues that we currently deem to be the ten most important with respect to the potential impact on our model portfolios over the next 12 months. This is only a ranking of importance and potential impact and *not* an explicit forecast. The list is to illustrate where our attention is focused at the present time. If you would like an in-depth discussion as to the potential magnitude and direction of the issues potentially affecting the model portfolios, we encourage you to email mark.jasayko@td.com and set up a time to talk face-to-face or by phone.

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The Charter Group at TD Wealth is a wealth management team that specializes in discretionary investment management. For an annual fee, we manage model portfolios for private clients and institutions. All investment and asset allocation decisions for our model portfolios are made in our Langley, B.C. office. We do not outsource any of the decision-making for our model portfolios – there are no outside actively-managed products or funds. We strive to bring the best practices and the calibre of investment management normally seen in global financial centres directly to the Fraser Valley and are accountable for the results.

Accountability is further enhanced by the fact that we commit our own investable wealth to the same model portfolios in which our clients are invested.

The information contained herein is current as of February 7, 2017.

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