Brief Initial Observations and Thoughts About the Transition to the Trump Administration

November 13, 2016

With the results from the recent election foremost in our minds, only thing one thing is certain – I will spend an enormous amount of time analyzing the potential opportunities and pitfalls that may occur in the market as a result of a Trump administration. The good thing is that I completed my last fishing tournament for the year, so I will be working overtime to figure out what will work for clients' portfolios.

The financial market reactions have been extremely fast and extreme. The initial reaction, once it became evident the Donald Trump would win the election, resulted in the Dow Jones Industrials dropping by about 850 points. As the night progressed, President Elect Trump made comforting comments, which turned the stock market off the lows.

By the end of the week, domestic stock indices were higher, but the variance in performance between sectors was historically wide. The financials did the best, up roughly 10%. We have been over-weighted in this sector for a while, with large positions in Assured Guaranty, BB&T

Bank, and SunTrust. All three securities were big gainers during the week. On the opposite end of the performance spectrum, yield barring stocks were clobbered. NextEra Energy, the largest utility stock, dropped by about 9% during the week and the REITs were significantly punished too. Technology stocks were up slightly as investors were trying to determine the outlook for Apple, Facebook and other inventive companies.

Showing the divergence in performance throughout the week, only 429 stocks on the New York Stock Exchange were higher last week, meaning the average stock was up a bit.

While stocks benefited from expectations of higher economic growth potential with the change in administration, the fixed income markets were not celebrating. Barron's reported that the fixed income markets lost $1 Trillion. Even for Naples, Florida, that's a lot of coin. The yield of the 10-year Treasury bond rose from 1.78% to 2.11% last week through Thursday as the bond market was closed for Veteran's Day on Friday.

Since we have been expecting higher yields for a while, we kept maturities of a shorter-term duration. Thus, our core holdings had a less significant drop when compared with the overall bond market.

As far as amendments to the portfolios go, minor changes have been made post-election. As we approached the election date, we raised some cash but maintained most core bond and stock positions as it is very difficult to predict market reactions to any election. Since then, we have reduced exposure to Hannon Armstrong, a REIT that invests in renewable energy, and Intuitive Surgical. Hannon Armstrong is at risk to lower support for clean energy. Intuitive Surgical has potential to see a drop in the market because people may be slower to fork out $2 million for robotic systems if they are at risk to losing government funding for patient care. Hospital stocks were the worst segment of the stock market last week, with severe losses of 20% to 40%. The buying action was focused in ABB, the worldwide leader in industrial robots, and there was a little bit of nibbling on portfolios which had limited exposure to NextEra Energy.

Having been in the investment industry for many years, I have seen investors overreact to a new administration. I suspect the rapid jump in construction material suppliers and the selloff in "bond like stocks" will correct over the next few weeks.

Looking forward, I believe the Trump Administration will be more favorable to stocks over the short term "honeymoon" period, while bonds may face challenging headwinds of potential significant debt issuance and higher inflation.

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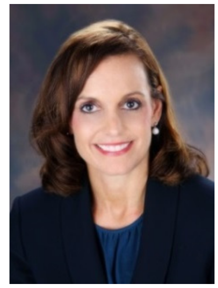

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<u>Disclosures</u>

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