INVESTMENT PLANNING AND MANAGEMENT GROUP OF
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Martin Truax, Managing Director-Investments

Dear Investors:

ENCLOSED IS MY CURRENT NEWSLETTER, **"THE BIG PICTURE 2017".** In it we discuss the *overnight* surprise, when at 2:41AM on November 9th, the financial markets reversed in a New York minute. Bonds fell sharply. Gold changed direction, down $70. Stocks were up about 1000 points on the Dow Industrials in less than 12 hours after the announcement. All of these markets suddenly moved opposite of their September through November 8th, 2016 trends. In a flash, optimism overwhelmed & the "fear trade" (gold & treasuries) melted. Why? What happened…

THE PROMISE TO MAKE AMERICA GREAT AGAIN was (unexpectedly) being reconsidered by investors. Lower corporate & middle income individual taxes, lower cost health premiums, more manufacturing on US soil with higher paying jobs, new infrastructure investment, were all possible with the three branches of government perhaps now in sync to get it done. Much of the press, street protestors, and flag burners disagreed with this perceived definition of great. Vote recounts were demanded to make sure the election outcome was real.

WE REMEMBER REAGAN early in the 80's as he entertained & bargained with the politically opposed Speaker of the House, Tip O'Neal. At first, the market collapsed after Reagan's inauguration, as he experienced obstacles & road blocks. The market declined to **777** on the Dow, before beginning a historic 17 fold increase to almost **11,777** over the next 19 years. Core earnings improved, interest rates declined, taxes were lowered, and market valuations increased substantially by year 2000 (Y2K). Thereafter, with the subsequent "lost decade" of *extreme* downside volatility, the markets finally broke through the former January 2000 market high again in late 2010. It advanced to over 19,000 by December 2016. Will the Trump Team too meet resistance in congress, or will it rather be a smoother transformation scenario? We further discuss this in the enclosed letter.

WE ALSO DISCUSS GETTING OUR OWN HOUSEHOLDS IN BETTER ORDER again, by updating all that paperwork so that we can keep those ultimate "transfer instructions" the most current and efficient. With tax changes and insurance company actuarial adjustments (as in "we are living longer"), we all need to prepare for the unexpected (or at least the unexpected timing of the expected). I discovered some cost effective & convenient help right under our roof. I'll explain.
ON A PERSONAL NOTE AS WELL, from our north of Atlanta top floor office view, we can see out over Georgia with its 10 million+ population. Its beautiful Smokey Mtns have been in flames for weeks. We can also see downtown Atlanta with its ever growing population of 6 million (expected over time to out populate NYC). Around Thanksgiving, we were directed to seek shelter in our office hallway as tornados approached the city, while my weekend home in those *Smokey* Mountains had a huge fire truck from Texas parked in the driveway. The flames were a mile away. The rains came, *just in time*.

I MENTION ALL OF THIS AS IT SEEMS TO BE A PART OF THE TIMES. Feeling more optimistic as the financial markets "turned on a dime", we've meanwhile been surrounded by smoke, flames and warnings to take shelter. So far, both warnings were just a drill for our family & colleagues. But, w*e paid attention & followed the drill*. And this is how we will continue to view & approach our flexible portfolio strategy (www.ipmgatlanta.com) for 2017. We'll be engaged, but as always, ready for "flights to safety". *Optimistically…*

Martin

THE BIG PICTURE

January 2017

MAKING AMERICA GREAT AGAIN was the pledge by presidential candidate Donald Trump to all Americans. In a speech at Gettysburg, he outlined his commitment to action for the first 100 days of his administration. That commitment was all encompassing, from trade to health to "draining the swamp". The full list of priorities is accessible on http://bertdohmen.com/trump-first-100-days/.

IF HE CAN MAKE GOOD ON THIS LIST, America would head in a new direction, paying *less* corporate and individual taxes. The economy might grow sufficiently to compensate for the tax breaks, through more business and more jobs paying more in total taxes. It's that same Laffer Curve that was attempted during the Reagan years. The added military spending in those Reagan years, ate up the new tax revenues however, actually *adding* to the deficit. So, with all the spending implications in the new 100 promises, we shall see how this turns out. Will the new president find the ways and the means to make all happen as promised?

MEANWHILE IN THE BACKGROUND will be the threats that can become real at any moment: cyber & grid attacks; loose nukes; tariff wars; religious wars; community chaos; an Asian (China) or European (Italy) financial/banking collapse; confrontations with Russia, Iran, North Korea, or terrorism at home. All of these and more could stick a fork in the best laid plans.

TAX SAVINGS ALONE could add 30% to corporate (S&P type companies) earnings. If earnings multiples just stay flat, that then could add a lot to the S&P index levels. Deregulation could add even more cost savings that would appear as additional earnings on the bottom line.

FOR EXAMPLE, on the back of an envelope, if I put $100 earnings less 35% taxes (the current US corporate tax rate), I get $65 after tax. Along side, I put a 15% tax rate, then I get $85 after tax. That's $20 more earnings on avg of $65, which is a 30% improvement. A 25% tax rate could yield a 15% earnings improvement. Such corporate tax reductions could result in a potentially positive 401K wealth effect for all workers with a retirement plan, as well as a big bonus to those already retired.

INTEREST RATES COULD RISE TOO, most likely if economic growth accelerated to the new president's goal of 4%, according to "hedge king" Stan Druckenmiller. In such a momentum, interest rates would be more normalized to perhaps 6% on the 10 year treasury during the next four years, according to "bond king", Jeffry Gundlach.

IF A BOND HAS A MATURY of say **10** years from now, with a duration of "7", that would mean that if rates went from 2% to 6% (a 4% rise), then the bond would drop -28% (the 4% rise x 7 yrs = -28%). It will mature of course at par ($1000), but in the meantime the portfolio value is adjusted to market price, "mark to (the) market", and the year's total return reflects the decline in current market value. There could be dislocations from pension plans under funding; insurance company capital requirements and thus ratings; as well as charitable foundation balance sheets and subsequent annual distributions for charity and education grants, etc. It could also show up in the bond allocation performance of our 401K and in the comparison columns for "check your choice" for next year (bonds, stocks, cash, etc).

AS A RESULT, money could be redirected into equities. Large cash piles currently lay on the sidelines waiting for opportunities and confidence before being deployed. Prior to the Trump rally, the market had been fairly flat after the artificial market stimuli from QE (quantitative easing) was turned off in mid 2014, almost 30 months ago. Interestingly, each market decline that followed stopped at about a minus 10%-12% "line in the sand". My associates and I think the "exchange stabilization fund" (ESF), established by President Roosevelt by executive order to stabilize gold prices & foreign exchange rates vs. the dollar, has possibly been expanded to now include other financial markets. Janet Yellen in essence suggested in September 2016, it may be more cost effective to support equity prices (and thus public confidence) than to engage in more QE (quantitative easing).

WILL THE "TRUMP TEAM" DO THE SAME? Or would equity market support fall under the "rigged system" category and be restrained or banned? We shall soon find out. He seems practical and more flexible after the election as he says he wants "95% of the popular vote in 4 years". That would have to *include (*happy) stock market shareholders to be sure.

"NORMALIZATION" WOULD LIKELY MEAN HIGHER INTEREST RATES. That could add to debt (interest rate) and inflation costs for government and the private sector. Zero interest rates on bank accounts would be gone, but so might be "zero interest" auto loans. Once the rate elevates, I would assume the economic growth might taper off, and perhaps inflation with it. With rising interest rates and dollar, it could subdue the western investment preference & trading flow into gold. Russia and China, meanwhile, seem committed to accumulation, for as the saying goes, "ye who holds the gold, makes the rules". If other countries' currencies are depreciated relative to the dollar, that's beneficial for foreign country exports. It also makes gold a potentially better "store of value" than the depreciating local (foreign) currency, and perhaps one day even a preferred "medium of exchange". As foreign currencies are dumped for gold, precious metals might rise.

INCOME OR TOTAL RETURN

RETIREES NEED INCOME. With zero interest rates, $1 million in the bank yields close to nothing. This could change over the next four years. For now, it means savers must spend principal if their social security and any (defined benefit, or other) retirement checks fall short of their income requirements. It also forces them to perhaps spend less.

FOR RETIREES, THERE ARE SEVERAL OTHER ALTERNATIVES TO ZERO INTEREST from savings accounts:

ALTERNATIVE ONE, is dividends from stocks. Over the long term, distributions have increased, but dividends also have contracted during the '08 debacle and other economic more difficult times. When I started investing 50 years ago, the S&P was around $100 & the S&P earnings were close to $5, with about $2 dollar in dividends. Now the S&P is over $2200, earnings are forecast to be over $135 for 2016, and dividends have grown to $45-50. That's at least a 20 fold increase for both the capital and income over approximately a half century. But along the way, I have watched the S&P drop by approximately 30-60% for periods of time.

JEFF SAUT (Raymond James market strategist) started his investments career at about the same time, in the same city, and same building as I did. We often ended up for snacks and stuff after work in the same nearby establishment. He said there was a sign on the wall of his boss's office with a big #**4**. He was told that would be the number of "big bad bears" he should see in his career. So WE have had our share of our career big declines, right?

BUT NEITHER OF US IS RETIRING YET. Jeff is defying the aging process, as you may notice with his weekly multi-channel TV appearances. I'm working on attempting the same. We both have had career extensions with indefinitely deferred "retirement" targets (as in, not til we have to). Jeff thinks we have at least eight more years of a bull market in this cycle. He likes riding the bull. If America can be "made great again", with the debt, entitlements & medical costs more reasonably restrained and controlled, that would be helpful to that bullish scenario. If peace & prosperity would become the norm, that would be miraculous. Otherwise, we will continue to have obstacles to smooth sailing in our career balance. As we move to extend our retirement target (or live longer), do we want to have our future retirement income source subject to the next round of the "four big bears" at this stage of our investment cycle?

IF A RETIREE LIVED IN AN EXPENSIVE CITY such as New York, and needed say $13,000 a month for meeting living costs, he might require $18,000 pre tax or $220,000. To earn that cash flow from a "total return" S&P index, it would require $10 million in the index at the 2.2% current yield. ***IF*** *history repeated*, that market value and income might again grow to 20x that again over the next half century. But it may also be cut in half four more times over that time period (i.e., the **4** Big Bad Bears). So let's consider the following:

ALTERNATIVE TWO is *higher* dividend stocks such as utilities, reits (real estate trusts), pipelines & infrastructure, and certain financial lending companies to name just a few. Perhaps a blended yield of close to 6-7% is possible today from a portfolio of these higher dividend stocks. That might require only a third of the amount of capital involved ($3.3m vs $10m to get the targeted $220,000). The balance could go into more stable, more predictable third party guaranteed type investments such as offered by some banks and insurance companies today.

A THIRD ALTERNATIVE might be municipal bonds. Most munis currently sell at a *premium* to par of the $1000 maturity value today. For example, bond holders will be repaid $1000 at some point in the future, but the bond may presently sell for $1020 or more. If a ten year bond paid 2%, you'd actually make $19.50 (2% of $1020), but get back $20 less at maturity or closer to $18.60 per year when the $20 loss is spread over the 10 years. Assuming no tax on municipal bonds, you'd then get $186,000 net on $10 million. During the 10 year holding period, the bond price would fluctuate according to the opposite future direction of interest rates. A loss could be realized if we had to sell the bond when prices were down before maturity. Is an annual 1.86% return with no additional compensation for inflation adequate for a decade? After all, a car, gas, apartment rent, food cost approximately 10x what they did 50 years ago, according to my observation.

A FOURTH ALTERNATIVE is "hybrid" investments with the principal guaranteed by FDIC or an insurance company. For example, some of the largest banks offer 7-8 year no interest CD's, where the interest you would have received is invested in their common trading account. The return *of the* principal is FDIC guaranteed, but not the return *on the* principal. That return would be subject to the trading account success.

INSURANCE COMPANIES also offer investments guaranteed by them with no downside of the market index each year, but perhaps half of the upside. They also offer investments where the insurance company guarantees that you'll not run out of a specified income amount for your life time. Any unused (not withdrawn) balance is transferred to beneficiaries.

OTHER THAN these type of more liquid investment alternatives, there are of course physical real estate rental possibilities. That comes along, however, with the maintenance and rent collection issues that are an inherent part of physical real estate ownership.

FOR MYSELF, being in a "required minimum distribution" (RMD) mode (many of my readers will recognize that term or may soon), I would prefer option 2 (higher dividends) and option 4 (with a guarantee on the balance) rather than options 1 (S&P type index returns) or 3 (muni interest) at this stage of suppressed interest rates and higher market valuations. Having experienced an adverse market adjustment about every 7th year or so of my 50 year investment time frame, I am all for making America great again & hope it will happen. But also we'll remain much aware of potential threats mentioned above, and others not discussed here.

AS A CONSEQUENCE of this preference, *I don't expect to closely match the performance of any* specified index, either up or down. If that's my real goal, I'd have to select option 1 & buy the index. Not for me, not now. I'd rather double or triple the required yield to (equal the amount of the required distribution) and place the balance in more stable positions. You know, the old "60-40"%, using your age for the more conservative *return of principal* bucket, with perhaps a third party guarantee of the return of the principal. That way, when the next possible unannounced surprise round of my anticipated "4 Big Bears" begins, only a fraction of the portfolio has that general market volatility exposure. *My eye will thus focus on the expected income* (the bottom line for me) rather than the top line of the markets' fluctuating valuations.

AND "THAT'S THE WAY IT IS" for a new year 2017, with a new presidency and administration, and looking forward with great anticipation to making it continually great again. As the new president says, his three favorite books are: #3 *The Power of Positive Thinking*, (Norman Vincent Peale); #2 *The Art of the Deal* (Donald Trump); #1: *The Holy Bible.* Perhaps these will be his guides to that greatness.

IF INCOME IS NOT NEEDED NOW

A TOTAL RETURN, **HEDGED APPROACH** would be my choice of strategies when income is not necessary. *Having a disciplined protective (exit) strategy in place*, I would consider all important. Debts, deficits, derivatives, along with algorithms & high frequency trading (the "flash boys"), make us continually vulnerable. The market intervention by the central banks and government agencies with tools such as QE, negative interest rates, mass emergency guarantees & "tarps" *may* work again if needed. Japan has been the leading market lab for such financial experiments. But Japan's economy meanwhile is struggling with debt exploding. Their "tools" effectiveness is seemingly becoming ever less responsive. And the U.S. equity markets are at historically high peak valuations (such as '29, 87, & '07)[i]. Let's keep that in mind.

Personally I don't see putting the pedal to the metal with unbridled (unhedged) optimism as in all out "Positive Thinking". If you're talking about accumulating investments under age 50, maybe that's a different story. There is still time for a restart, to rebuild if necessary. But at over 50, it's time to begin balancing the nest eggs with potential hedges and some built in stability with maybe 30-70%, 40-60% (stability bucket %/volatility bucket%) or whatever the individual risk tolerance and time perspective would suggest.

SEAMLESS, AND NOT HAVING TO SAY I'M SORRY

Those who have received my last several annual newsletters, may remember I've been the cobbler trying to get the shoes (& the house) in good order. Reviewing and adjusting previously made plans of future asset transfers is not the favorite past time for most of us. It's in the back of our minds, or in a stack on the back of our credenzas. It's in the "I'll get to it later pile", but just not in the "this afternoon" priority pile. I understand that. As I hopefully can soon close out several years toward making these "readjustments", I have made a few important observations.

FIRST, **THE PLANNING PROCESS CAN GET EXPENSIVE,** especially with any special situations or special needs in the future plans. I have BOTH, which takes a very *special expertise to get it right.*

Few attorneys can take the time to go full study on this complex special needs subject. I was fortunate to find a lot of no cost advice (actually the cost is real, but was already included in the investment management fee I pay for my portfolio management, transaction & reporting at Raymond James). The RJ Trust department has layers of specialists that have helped me progress through this least favored but necessary activity. After their reviewing my existing documents, they have given me written suggestions for improvements for my situation. This was observation/result number one.

SECOND, TRUST DEPARTMENTS will charge an annual fee of a percentage of the assets under management. I am finding that the RJ trust services can be mostly all in one inclusive of the existing portfolio management fees on the liquid portion of an estate. Thus, the combined trust service and portfolio management cost is not significantly increased over just the management fee only.

A TRUST CAN ALSO INCLUDE your house, business, and other less liquid collectible assets. To note, many trust departments may force the sale of physically stored precious metals (the trust department can't monitor them) or of real estate or a business (if it represents more than a certain percentage of the trust assets). *None of this works for me*. But I have found the trust department (at Raymond James) more flexible, less cookie cutter. They have also been more willing to periodically review the value of less liquid assets (i.e. many trusts companies are still charging fees on the '07 value of real estate…somewhat like local real estate tax assessments). This flexibility can become a big advantage in trustee selection. This was important observation number two.

WHO FOR A TRUSTEE

FOR YEARS, my partner Ron Miller has been named as my future executor and "trustee to be". So far, fortunately, all he's had to do is sign a few papers. But after he recently experienced being the executor of a relative leaving a fairly simple estate, only then did he realize what he had signed on for. He told me, "I really don't want to handle your junk". I checked with my other two partners that are half my age (Josh Newman and Erik Lawser) and got some blank stares. They both have young kids, and put all of their "extra time" on work (with perhaps a *bit* of golf, tennis & travel). So I've decided to *go with the pros*, especially for the core more liquid portion. They have the personnel, experience & fortitude to handle the hassles, the potential family differences & more special considerations. Future family issues can become (sometimes unexpectedly) *huge*.

AND THEN MY WIFE MARJIE HAD HER INPUT. She said she would like "everything to be as seamless as possible." By that she meant, she didn't want to have to figure out where all the junk and papers were, and go through the hassle of sales & administration, etc. That's not her preferred way of spending her day. She also added she didn't like to say sorry to requests. She'd find it easier to just say, "everything is in trust".

SO WE'RE WORKING ON THAT. Its taking a little more time, but hope to put all this in the credenza's "done drawer" real soon. I know we'll both like it better like that, *when it's done*. Then we can continue on doing what we prefer doing with our time.

MAKING IT GREAT

I MUST ADMIT, I prefer this "making it great" positive thinking mind set. (Incidentally, when my son and I visited with Norman Vincent Peale some 25 years ago in Pauling, NY, I noticed Donald Trump's name on a wall plaque as perhaps the largest donor to Peale's center). But I also certainly see huge potential problems on the horizon. It's going to take a miracle (miracles) to get it right. I won't bet the entire farm on such a miracle, but sure would put a more meaningful percentage into production. To lie totally fallow would be a waste. I'm remembering the 10 fold cost of living increase over the last 50 years. But if adverse weather is in the forecast, we don't want all productive assets to be in the path of destruction.

SO WE'LL HEDGE the production (investment portfolio) like any cautious farmer, and keep our eye more on the bottom line (income), rather than focusing so much on fluctuating index values. The index averages can be *here today and gone tomorrow* (and with perhaps **4** tomorrows still ahead for some of us).

MEANWHILE, WE'LL TRY TO: (1) mitigate the downside; (2) through balanced allocation & hedging the potential volatility; (3) attempt to get more seamless through up to date estate pre-planning & trust arrangements and avoid the potential for "wolves in sheep's clothing" for heirs (when bad things can happen to good people); (4) and then see if we can continue to "make it & keep it…great again". When we finally get through this re-planning process, we will hopefully have accomplished at least the first 3 steps.

Here's toward the 4th step…
With positive thoughts…
For a cautious and rewarding 2017…,

Martin

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[i] Hussman