WEISS WEALTH MANAGEMENT GROUP of RAYMOND JAMES®

THE WEISS REPORT

SMART AND STEADY

Volume 19, Number 4 | November 21, 2016

LEONARD A. WEISS
SENIOR VICE PRESIDENT, INVESTMENTS
LEONARD.WEISS@RAYMONDJAMES.COM

LOWELL J. WEISS, J.D., CFP®
FINANCIAL ADVISOR
LOWELL.WEISS@RAYMONDJAMES.COM

WEISSWEALTHMANAGEMENT.COM

DJIA: 18,898 | NASDAQ: 5,336

NOW WHAT?

Like most of you, we are very happy to have the 2016 election season pass into history. While everyone talks and types until they're blue in the face about the how and why the outcome of the election worked out as it did, we want to remind our readers the The Weiss Report is concerned with long term investing. We respect that there are a wide variety of opinions about what a Trump presidency means for the economy. We welcome any questions or discussion about those differing voices.

Rather than focus on politics, we look at what drives stock and bond markets to rise or fall in a longer-term time frame. It is in this context that we will piece together what we think the outcome of the election means. Our thoughts will be focused solely on what could happen in the markets. While it is true that "non-economic" issues, such as international relations or social issues, could impact the financial world, for now we will focus solely on markets.

The election of President Elect Trump was not only a surprise to journalists, but also to most market strategists. Most times, the markets react with a downward lurch when unexpected news hits. When the attacks of 9-11 occurred, the market dropped for an entire week. We think it is worth noting that the reaction of Mr. Trump's victory was a very positive one. In our decades of work in this industry, this is the first time we we've seen a surprise of the scale of the election outcome affecting markets positively. We think this reaction may be an indication of what may be ahead for investors.

Initially, we think much of Wall Street will have to recalibrate its expectations. Most institutions, have forecasted 2017 and beyond as a continuation of the subpar growth. We believe that the next administration and Congress will work toward pro-growth policies that had previously been abandoned.

We spent some time in October meeting with a veteran Wall Street strategist and portfolio manager. We saw him as a legitimate proxy for the consensus of strategists. He presented his case to us with both positive and negative perspectives. In the question and answer period, we asked him directly: "Why have the traditional methods to foster growth, low interest rates, low energy prices and the claim of full employment not produced the kind of economic recovery seen in all

31500 Northwestern Hwy. – Suite 150 – Farmington Hills, MI 48334
248-539-5474 – 800-548-8008 Toll Free – 866-522-9601 Fax

previous recessions since WWII"? His answer was short and to the point. "The economy is over-regulated, and the federal government has too big of a foot print in the general economy."

If this were to change, we expect that the slow growth period of 2011-2016 can be reversed. We would also expect that these changes would help create new jobs and help corporate profits begin to grow at higher rates than the last few years. With higher corporate earnings, and more liquid consumers, we would expect to see more robust equity markets. This should be great news for all investors.

Longer term, we expect to see the stock market return to its historical norm. While we have all been looking for the next zig or zag in the market, we may have not been paying attention to the longer term message. That message is that the stock market over the last 10 years has not come close to its own longer-term rate of return. In fact, we would call the last 10 year return, a dividend inflated sub 7% per year as measured by the Standard and Poor's 500 Stock Index (S&P 500), to be relatively anemic.

Why do we call it relatively anemic? Because when we look at longer periods of time, including the past 10 years, we see a much different outcome.

The 30 year average annual return of the S&P 500 from 1986-2016 is 10.08%. This period includes the crash of 1987, the dot.com 3 year bear market of 2000-2002, and the great recession. This return was generated with an average approximately 1% dividend.

Comparatively, the 50 year average annual return (1966-2016) was also 10.08%. This was achieved with a less than 1% dividend rate.

Lastly, the 70 year average annual return (1946-2016) was 11.04%! This was achieved with a less than 1% dividend. It also included the Korean and Vietnam wars.

It is from this history that we believe a normal growth rate for the stock market over time can be in the 10% per year range. The fact that we have not achieved this growth rate in the last 10 years leads us to believe that a reversion to the mean could be in the offing. We believe in long term cycles, and that many of the forthcoming economic policy changes should result in the markets rising above its longer term trendline to bring the markets more in balance with history. This of course is the best potential outcome for investors. But for this to come to fruition, it should take time, patience, and a little luck!

Portfolios:

We also think there should be some strategic changes in the way Weiss Wealth Management Group manages assets by discretion.

Starting in 2002, we have stressed building portfolios predominately with individual securities and fundamental research in an attempt to control risk and offer competitive returns. This more focused style worked well until late in 2014.
Since 2014, general markets may not have appreciated at historical rates, but in general, they have outperformed portfolios more focused on individual stocks and fundamental research. We see the need to return to a broader based portfolio relying on the power of broad diversification and lower cost third party investment opportunities. We call it "broadening of the sail to catch more wind".

In an effort to broaden the sail, we are increasingly looking towards relatively low cost managed investments. We believe that looking in these broader investment vehicles we will find an increase in overall market participation while reducing our company specific exposure.

In a way, we are continuing the expansion process that we started in 2015 and 2016 when we started utilizing momentum based research in our investment decision making. We believe the current investment climate is best navigated using the broadest sail possible. We welcome any questions as to the specifics of how that will be accomplished.

Enclosures:

Enclosure #1 focuses on what is often called the lifeblood of the economy – small businesses. Unfortunately over the past decade or so we have seen a troubling sign regarding the number of new small businesses in the country.

Enclosure #2 is an article about a new restaurant opening in San Francisco. While we don't consider ourselves food critics, this particular restaurant is worth reading about. Specifically, this will be a fully autonomous hamburger restaurant. Robots flipping burgers may scene out of a sci-fi movie, but it is very close to becoming a reality. This could significantly impact millions of employees.

Enclosure #3 is a market update from one of our preferred economists. Brian Wesbury, from First Trust Advisors, provides an outlook for the future after the election. While we appreciate, and agree, that there are valid counterpoints, we believe this outlook is worth reading.

The Small Business Problem

BUSINESS CLOSINGS HOLD STEADY WHILE BUSINESS STARTUPS DECLINE

Business startups have been declining steadily in the U.S. over the past 30 years. But the startup rate crossed a critical threshold in 2008, when the birth rate of new businesses dropped below the death rate for the first time since these metrics were first recorded.

Source: U.S. Census Bureau, Business Dynamics Statistics

GALLUP

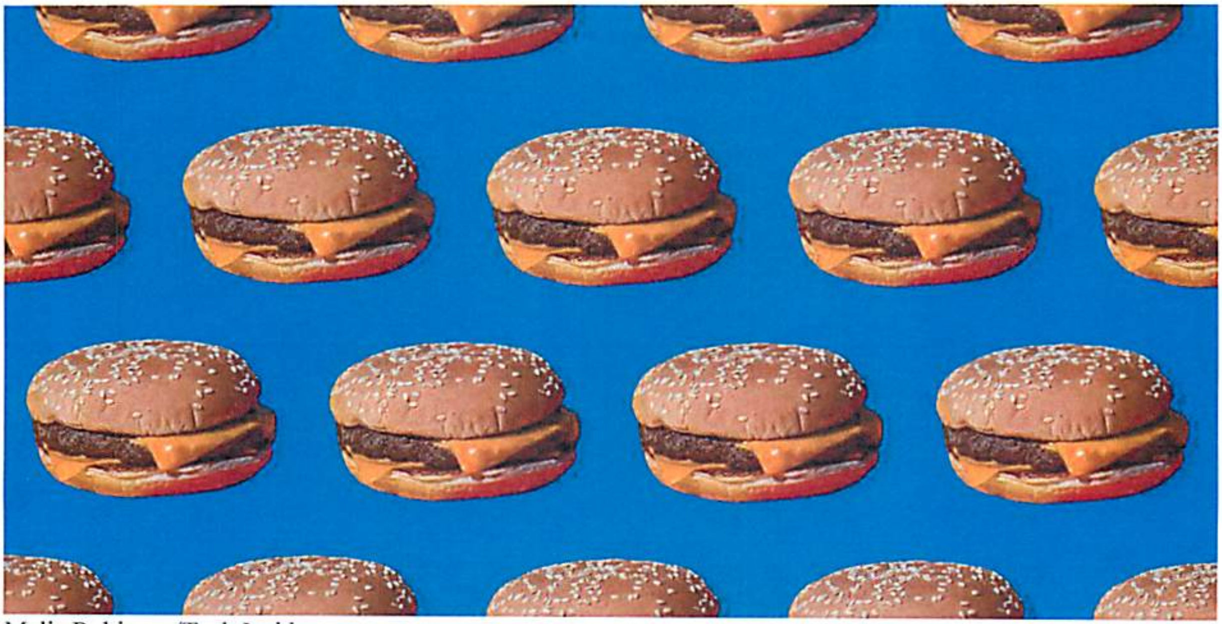
One of the ways we can show you how sluggish the economy has been over the last few years appears in the above picture. It shows that over several decades, more small businesses were opening than closing. This makes sense, as small business has been the piston in the growth engine of economic growth.

But after the Great Recession, this trend changed. Over the last few years, more small businesses closed than opened. We think that level of uncertainty, increased regulation, taxes and an unfriendly lending environment have all contributed to this shift.

We also think that as the economy strengthens, this trend will revert to its historical norm.

This robot-powered restaurant could put fast food workers out of a job

- Melia Robinson, Tech Insider
- Jun. 30, 2016


Melia Robinson/Tech Insider

A robot-powered burger joint is coming to San Francisco.

In 2012, secretive robotics startup Momentum Machines debuted a machine that could crank out 400 made-to-order hamburgers in an hour. It's fully autonomous, meaning the robot can slice toppings, grill a patty, and assemble and bag the burger without any help from humans. The internet flipped out.

Years of relative silence ensued, but in January, Hoodline's Brittany Hopkins learned that the San Francisco-based startup had applied for a building permit to convert a ground-floor retail space in the SoMa neighborhood into a restaurant.

Now it looks like the restaurant is actually happening. A job posting on Craigslist from early June gives us our first glimpse into how the company's future flagship, presumably opening soon, might work.

"This location will feature the world-premiere of our proprietary and remarkable new advances in technology that enable the automatic creation of impossibly delicious burgers at prices everyone can afford," the ad explains.

Just look at that burger:

This is the only known image of a burger manufactured by Momentum Machines technology. Momentum Machines / The Wharton School, The University of Pennsylvania

According to the job posting, Momentum Machines is looking for a self-motivated, conscientious applicant to take on the role of "restaurant generalist" at the restaurant.

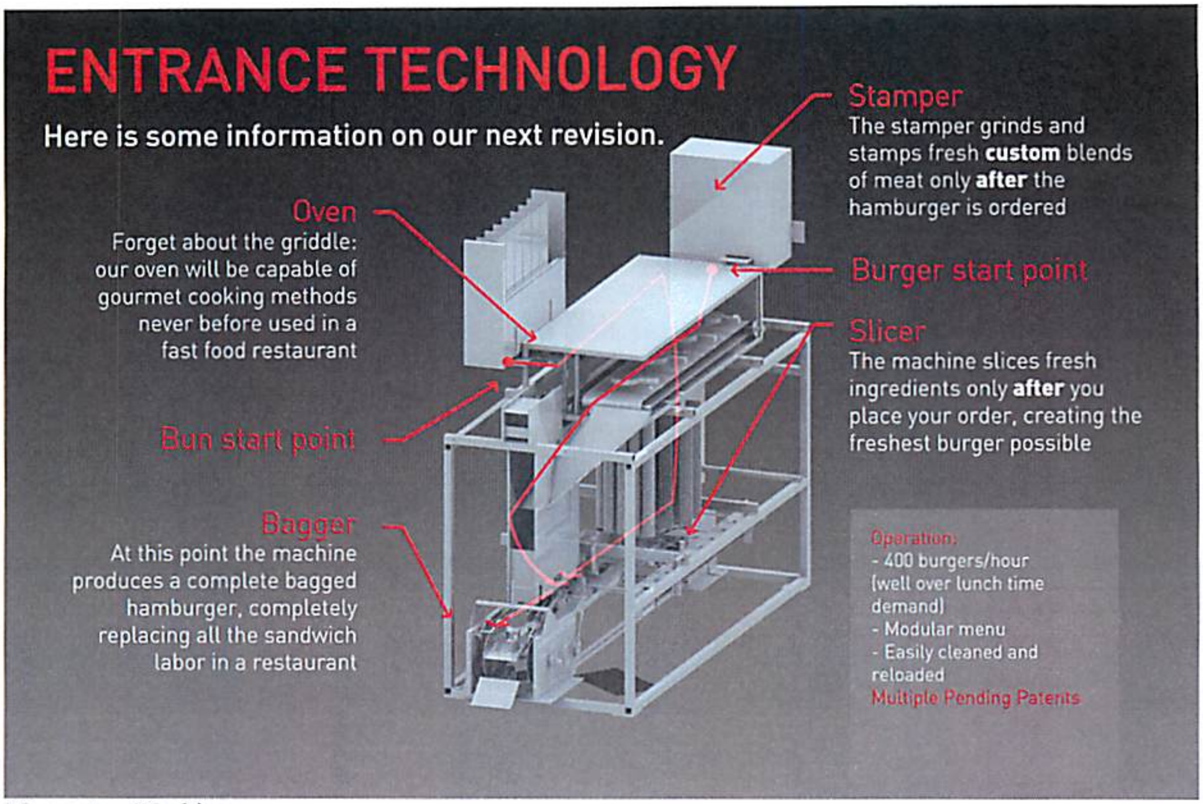
It describes the ideal candidate as "autonomous," which seems about right since future robotic coworkers will also be quite autonomous.

But just because robots make the food doesn't mean there isn't human-worthy work to be done.

"[You will] learn to do everything that's part of running a restaurant in San Francisco," the ad explains. That includes taking customers' orders, scheduling shifts, and occasionally taking out the trash and tidying up.

The role will also challenge the applicant to "pick up some new skills that aren't part of typical restaurant work," such as software troubleshooting, market research, and product development.

The word "robot" is not mentioned in the job posting.



Momentum Machines

In 2012, Momentum Machines created a prototype machine that allowed every part of a burger to be customized, from cook time, condiments, and thickness of patties, depending on the day's menu.

A schematic of what the burger-bot looked like, released that year, showed a 24-square-foot Rube Goldberg-like machine, complete with a stamper that grinds and shapes custom blends of meat (like a one-third pork, two-thirds bison behemoth of a burger) and an oven.

"The burgers sold at 680 Folsom will be fresh-ground and grilled to order, served on toasted brioche, and accented by an infinitely personalizable variety of fresh produce, seasonings, and sauces," according to the Craigslist ad. Um, yum.

The prototype could replace two to three full-time line cooks, saving a fast-food restaurant up to $90,000 a year in training, salaries, and overhead costs, tech blog Xconomy reported after catching a live demo.

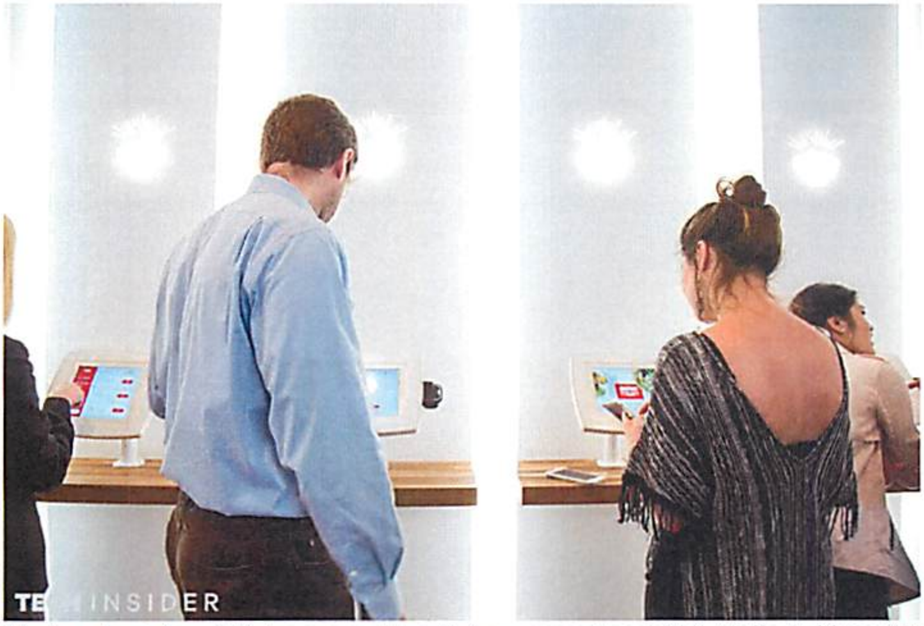
"Our device isn't meant to make employees more efficient," Momentum Machines cofounder Alexandros Vardakostas told Xconomy in 2012. "It's meant to completely obviate them."

A meaty controversy is shaping up

From the consumer side of things, a Momentum Machines restaurant is a burger lover's dream. Your burger arrives exactly as you like it.

A recent post on tech blog Nanalyze describes the perks of an automated cooking process: No robot will ever spit in your food or add mayo when you asked for the burger without. A robot won't take an extra minute to prepare your meal because it's checking Facebook.

Burgers will be fast, cheap, and personalized for your taste buds.



Modern-day automat Eatsa moves the ordering process to a tablet. Melia Robinson/Tech Insider

San Franciscans, at least, are already warming up to the idea of a restaurant experience with minimal human interactions. In 2015, futuristic food-chain Eatsa opened downtown. The vegetarian restaurant, which specializes in quinoa bowls, uses technology to automate the ordering and pick-up process.

But not everyone will be on board with the burger-bot, which takes automation to the next level. Momentum Machines' technology eliminates the need for line cooks (though front-of-house and custodial staff will likely still be essential).

It also raises the ongoing question: Will robots steal our jobs? The answer, according to Momentum Machines, is yes. But that's okay.

In 2012, Business Insider reported that the company thinks it can actually promote job growth by letting robots fill in for humans in the kitchen. Momentum Machines may, for example, have to hire new employees to grow their technology and to staff additional restaurant locations.

There is no scheduled opening date for the Momentum Machines restaurant, and the company did not immediately respond to a request for comment... We'll be over here, salivating, in the meantime.

Read the original article on Tech Insider. Follow Tech Insider on Facebook and Twitter.

First Trust
Monday Morning OUTLOOK

630-517-7756 • www.ftportfolios.com November 14, 2016

Revolution

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – Dep. Chief *Economist*
Strider Elass – *Economist*

Elections have consequences and the impact on U.S. economic policy of last week's election will be enormous. We're sure we'll be writing about all of these issues in much greater depth over the next several months, but, for now, here's a broad outline of what to expect.

One of the Republicans' first tasks will be **repealing much (but not all) of the Affordable Care Act**, also known as Obamacare. To get that done, they will use the budget reconciliation process in the US Senate, where they don't need to break a filibuster with 60 votes; instead, they only need a simple majority. The budget process can be used to eliminate (1) penalties for not getting insurance, (2) subsidies for buying government-approved overly-broad insurance packages, and (3) the expansion of Medicaid.

Although you may hear about "compromises" on children staying on parent's insurance plans and pre-existing conditions, those aren't really compromises. Rules that aren't budget related can't be repealed thru a budget bill. But expect the Department of Health and Human Services (maybe headed by Bobby Jindal) to change some rules to substantially slim down health insurance, to make it look more like catastrophic insurance, and, therefore, much less expensive.

On net, this means not only a big cut in government spending but lower effective marginal tax rates. Right now, large Obamacare subsidies remove an incentive to earn more money. The dollar value of working more hours and earning more income is offset by the loss of subsidies.

Next: A **big supply-side tax cut**, particularly on capital investment. Look for a big drop in the tax rate on regular corporate profits. The only problem will be getting enough Democratic votes for a supermajority in order to make these changes permanent. With only a simple majority, tax cuts are limited to just 10 years, just like under President Bush.

On entitlements, several years ago, House Speaker Paul Ryan developed a plan to **block-grant Medicaid to the states**, similar to how the welfare system was block-granted to the states in 1996 under President Clinton. Look for that to happen later in 2017, especially if the GOP decides to temporarily leave Medicaid alone when it repeals other parts of Obamacare. Ryan also has a plan to turn Medicare into a more efficient and less expensive insurance subsidy system rather than a fee-for-service system. The one area of inaction will be Social Security, where changes require 60 votes in the Senate.

For the financial sector, look for a new Labor Secretary to halt the **DOL/Fiduciary Rule** in its tracks before April 10, or, in the alternative, Republicans to use the budget process to prevent it from getting enforced. The Fiduciary Rule is a beehive of potential class-action lawsuits and it will end up limiting the ability of smaller investors to get good financial advice.

Repealing all of **Dodd-Frank** would require 60 votes in the Senate, more votes than the GOP has to achieve that goal. But look for more flexibility for small and medium-sized banks. Republicans will also strangle the **Consumer Financial Protection Bureau**, by not defending it against a recent Supreme Court ruling that called its structure unconstitutional, by not appointing leaders, and by cutting off its revenue flow.

A Trump Administration is going to be very friendly to the **fossil fuel industry**. Look for faster approval for pipelines and less regulation of CO2 emissions. There's already talk of a Keystone pipeline revival, which would have been impossible under President Clinton. The US is well on its way to being a net petroleum exporter in the next few years.

Two areas of problems are **protectionism** and **infrastructure**.

We understand the temptation to do protectionism. China steals our intellectual property, subsidizes its steelmakers, and often forces our companies to work with local firms when working in their country. And maybe the threat of protectionism will get them to stop these practices. Tariffs would also help some US companies and their workers. But protectionism would also raise prices for consumers. So, for example, if steel or aluminum prices rise, automakers pay more and your cars and trucks are going to cost more, leaving less money to spend on other products.

Over time, protectionism would hurt the economy and stock market, which would erode political capital. Recent comments, though, suggest Mr. Trump is going to tread lightly on trade issues for the time being, a hopeful sign. To offset this, look for Trump to be very tough on

immigration issues, moving to strictly enforce the E-Verify system to make sure workers are legally here, and limiting entry from countries with hostility toward Western Civilization. Jeff Sessions is an immigration hawk and his former staffers are well placed on Trump's transition team.

Washington has always been enamored with more infrastructure spending. It can be an easy political sell and Trump and his advisors like the idea. But stimulus spending didn't work under President Obama and it wouldn't work now. Boosting government spending would be a mistake and would weaken the economy long-term. We're hoping Trump pares back his infrastructure promises, leaves it to the states, or somehow keeps unions from milking the spending programs like they always do. The way to do that is suspend Davis-Bacon.

President-elect Trump also has a chance to systematically shift policy in a free-market direction in other ways. Earlier this year, **government worker unions** breathed a sigh of relief as the Supreme Court deadlocked 4-4 in the case of a California state worker who said being required to pay union dues violated her First Amendment rights. Justice Scalia likely would have agreed with the worker, but died before the ruling was made.

The tie went to the union's favor because the union won in the lower federal court. But, right now, there's already another similar case winding its way through the courts. Just one conservative appointment and every government worker in the entire country will no longer be required to pay a union a dime.

Just imagine what US elections will be like when government unions have almost no money to spend or organize. This may be a nightmare for some, but for those who support free markets, it will be a dream come true.

Bottom line: economic policies are likely to tilt toward free markets, which will boost growth, jobs, incomes and equity values. If that's what happens, a second term is highly likely.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-15 / 7:30 am	Retail Sales – Oct	+0.6%	**+0.5%**		+0.6%
7:30 am	Retail Sales Ex-Auto - Oct	+0.5%	**+0.4%**		+0.5%
7:30 am	Import Prices - Oct	+0.4%	**+0.8%**		+0.1%
7:30 am	Export Prices - Oct	+0.1%	**+0.2%**		+0.3%
7:30 am	Empire State Mfg Survey – Nov	-2.0	**-2.0**		-6.8
9:00 am	Business Inventories - Sep	+0.2%	**+0.2%**		+0.2%
11-16 / 7:30 am	PPI – Oct	+0.3%	**+0.2%**		+0.3%
7:30 am	"Core" PPI – Oct	+0.2%	**+0.1%**		+0.2%
8:15 am	Industrial Production – Oct	+0.2%	**0.0%**		+0.1%
8:15 am	Capacity Utilization – Oct	75.5%	**75.3%**		75.4%
11-17 / 7:30 am	Initial Claims – Nov 12	257K	**257K**		254K
7:30 am	CPI – Oct	+0.4%	**+0.4%**		+0.3%
7:30 am	"Core" CPI – Oct	+0.2%	**+0.2%**		+0.1%
7:30 am	Housing Starts – Oct	1.155 Mil	**1.168 Mil**		1.047 Mil
7:30 am	Philly Fed Survey – Nov	7.8	**7.6**		9.7