RBC Wealth Management

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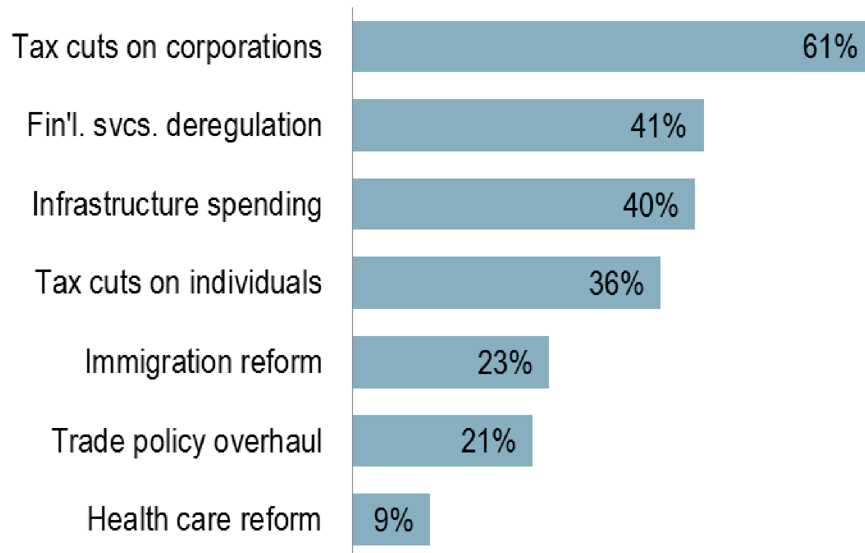
April 2017

At end of the first quarter, we are about 70 days into the new Presidential Administration. The 100-day threshold is a legacy left over from Franklin D. Roosevelt's first term during which he shepherded 15 major bills through Congress and created an alphabet soup of programs and agencies to lift the nation out of the Great Depression. During that time, Americans were looking for a leader to restore hope to the ravaged U.S. economy. In comparison, the economy is in pretty good shape at the present time. There are problems, but instead of focusing on those challenges, we continue to litigate the results of the election. Daniel Patrick Moynihan – Senator, UN Ambassador, Harvard professor – said: "Everyone is entitled to his own opinion, but not to his own facts." Today, maybe, it's not a matter of opinions and facts, but the recognition that there are those among us who share different perspectives and experiences. And that's okay.

A few years ago, Malcolm Gladwell posited in his book, *Outliers,* that it took about 10,000 hours of deliberate practice to be expert in any one endeavor – here, I'll do the math: if you spend eight hours a day deliberately practicing a skill, it would take 1,250 days or nearly three-and-a-half years for someone to become world-class in any one field. Perhaps it would take someone who's never held elected office or engaged in any formal governmental service, 10,000 hours before he or she became expert at running the country. 100 days is just a start.

The market has rallied sharply since the Presidential election with the Dow Jones returning 13% and the S&P 500 advancing 10% since November 8th. Much of this momentum was due to the excess cash on the sidelines waiting for the results of the US election. Now, many investors are forecasting which agenda items will be the top priorities of the new Trump Administration. We follow this closely, of course, as it relates to investments we want to own (or avoid) in your portfolios. RBC recently surveyed our institutional clients for their thoughts on the initiatives most likely to be passed into law, or implemented by executive order, by December 2018 and here are the results:



Source: National research correspondent survey of institutional clients as of 4/3/2017

We were interested to read Seth Klarman's most recent letter to his investors. Who is Seth Klarman? The New York Times describes him as, "the most influential and successful investor you've probably never heard of" and goes on to call him "A Quiet Giant of Investing". He's the value investor, who runs Baupost Group, which manages $30 billion. He has a good track record: he's lost money in only three of the last 34 years. In late January, he wrote a private letter to his clients – which soon became not so private -- about how to invest in the age of President Trump. First, a little perspective and a little background: Klarman is no fan of President Trump, but that is not relevant for our purposes. What investors say publicly and what they do with their money can be different things. For example, Warren Buffett campaigned publicly against Mr. Trump, but he has invested--about $12 billion, according to a recent disclosure-- in the market since the election. George Soros, who also actively campaigned against Mr. Trump, bet– – wrongly so far – – that the stock market would fall; estimates are that he has lost about $1 billion. In his letter to investors, Seth Klarman focused on the importance of active management and individual stocks for long-term investors. He notes that hedge fund returns have underperformed the indices – – he mentioned that hedge funds had returned only 23% from 2010 to 2015, compared with the 108% for the S&P index. "As with any asset class, when substantial new money flows in, the returns go down… No surprise, then, that as money poured into hedge funds, overall returns have soured." The irony, he says, is that investors now "have gotten excited about market hugging index funds and exchange traded funds (ETFs) that mimic various market or sector indices." This is of note, since investors added $282 billion to ETF's in 2016--$27 billion was added the week after President Trump's election. He says he sees trouble ahead in this area – – or at least the potential for investors in individual stocks to profit. "This should give long-term value investors a distinct advantage", he wrote. "The inherent irony of the efficient market theory is that the more people believe in it and correspondingly shun active management, the more inefficient the market is likely to become. "
We agree with Klarman's thesis on the importance of active management and the value of individual stocks—we are not interested in chasing the latest popular hedge fund, ETF, or other investment vehicles du jour.

Despite recent turbulence in the stock market, the major indices are wrapping up the first quarter on a positive note. The Dow gained nearly 5%, while the NASDAQ posted close to a 10% increase; it's best quarter since late 2013. The Dow crossed both the 20,000 and the 21,000 levels for the first time, as the bull market turned eight years old. The best performing sectors in the first quarter were Information Technology (up 12.6%), Health Care and Consumer Discretionary (both up 8.4%). The laggards continue to be the energy sector (-6.7%) and telecommunications (-4%). Market volatility remains low. The VIX volatility gauge is sitting at just 12, down from 22 right before the November election. Consumer confidence has surged to the highest level since December 2000, but Americans aren't spending. Consumer spending was up a mere 0.1% in February. The economic news has been mostly positive. This quarter, the S&P 500, the Joe DiMaggio of all stock indices, ended a streak of 64 consecutive trading days without declining more than 1% at any point in the trading day. DiMaggio hit safely in 56 consecutive games in 1941. Failing to extend the streak by one game cost DiMaggio $10,000, which the Heinz Corporation promised to pay him to endorse their Heinz 57 products.

We continue to remain "cautiously optimistic" (as Alan Greenspan used to say when he ran the Federal Reserve) on the U.S. economy and the stock market. However, we are keenly aware of the recent market run-up we have enjoyed. We will continue to monitor any changes in Washington as well as the on-going geopolitical issues on the horizon (such as Syria, Brexit and the many security threats both domestically and internationally). We must be mindful of the daily news, yet focused on staying the course for prudent investment management. As spring blooms in Washington, we wish you well until we speak with you next.

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