Financial Services Advisory
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Election Results Shift Investor Preferences

November Market Update—December 9, 2016

Stocks posted strong returns in November, especially financial, energy and industrial companies, as investors speculated that with Republicans controlling the Presidency as well as Congress, there will be a boon in infrastructure spending and oil and gas exploration. On the other side, bonds fell back in one of their worst months in three years, as investors speculated that yields will continue to rise under this new administration, no doubt sparked by rising inflation, due to increased spending coupled with tax cuts.

Along with bonds, other interest sensitive areas also fell in value, such as utilities, REITs, and Consumer Staples. It was a month that rewarded areas that might do well if interest rates rise or if inflation returns and punished those areas sensitive to rising interest rates. Initially, it looked as if gold might rally on the election results, but gold fell back sharply to finish down around 8% for the month.

Impact on FSA Portfolios

For the more equity oriented portfolios (Sector Rotation, Tactical Growth, and Core Equity), November provided an opportunity for gains. Portfolios with a sizable allocation to bonds (Income, Income & Growth and Conservative Growth) struggled as losses from many of the bond funds offset gains from the stock-oriented funds. In addition, many of the equity income type funds lagged.

We exited from the high yield municipal bond positions that many of our taxable accounts held. This area had been one of the stronger areas of the market in the first half of the year, but rolled over fairly sharply after the election. In addition, we have trimmed back our higher quality bond funds as they also started to roll over after the election. We continue to hold corporate high yield and floating rate bond funds, since these types of bonds are not as sensitive to rising interest rates and continue within their long-term uptrends.

A Quick Peak into 2017

First of all, we can't believe it is December already. Where did the year go?

The month of December is always challenging to make any inferences about how the markets might be setting up for the New Year. It is common for investors to sell their losing positions in December to generate some tax losses. In addition, trading volume in the stock market begins to shrink in the second half of the month as the holidays approach. These events can mask what investors are really thinking about over the longer term, and as a result, it can be difficult to get a good read on the market at this time of year.

U.S. stocks, after struggling through a sideways, choppy environment for over two years, have charged to new highs since the election. So far, the rally has been confined to the U.S., and within the U.S., mainly among energy, financial and industrial stocks, which is where we have been focusing our recent purchases.

As for bonds, the overall trend for bond funds was positive—until mid-November. We have seen the higher quality bond funds drop since the election. While it remains to be seen if this is a clear long-term turning point for bonds, we have been selling those positions that have fallen through their FSA Safety Nets®.

Final Thoughts

As we mentioned last month, most mutual funds—particularly stock funds—will be paying capital gain distributions in December. As a result, their fund prices may show a sharp drop one day that will affect the value of that holding in your portfolio until the distribution is posted into your account—usually the next day. Don't be alarmed at those drops since they are merely reflecting the payment of a distribution to the shareholders. Please feel free to call or email us if you have any questions.

Finally, as we approach the end of another year, it is a time for us to reflect on the people that mean the most to us—family, friends—and to thank you for your trust and loyalty and friendship over the years. Keeping and growing your hard earned money has become more challenging in recent years, but we believe the environment may be turning in a direction more favorable for our style of management. So, hopefully the New Year will bring peace and prosperity to each of you.

Ronald Rough, CFA
Director, Portfolio Management

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