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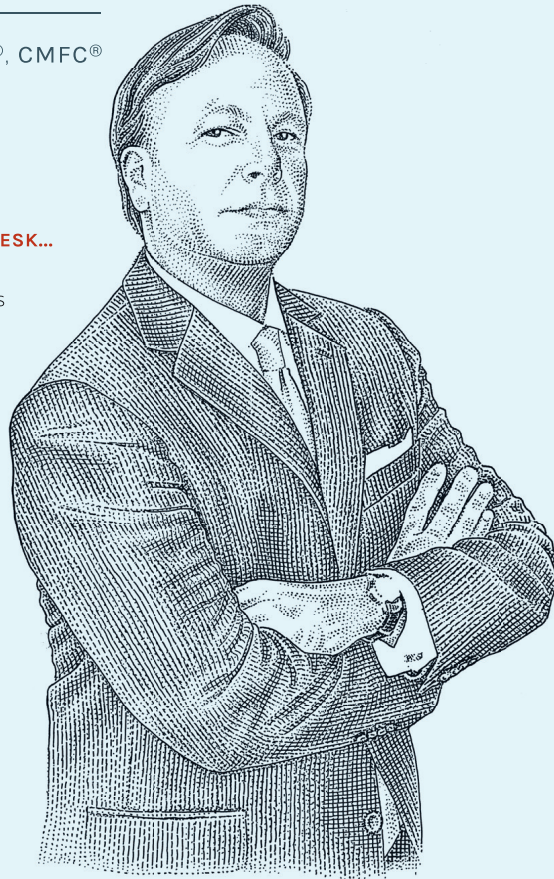


VOLUME 20 | EDITION 02

What effect are the politics of today likely to have on my portfolio?

BY BRIAN D. HOLMES, MS, CFP®, AIF®, CMFC®

 **WHAT'S ON MY DESK...**
*John Wooden's
Pyramid of Success*



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o matter which side of the political spectrum you're on—whether you're buoyed by hope or paralyzed by fear regarding the new administration—you'll be well served to remember this immutable investment truth: *The party in power historically has very little impact on the overall performance of financial markets.*

In fact, since 1945, a traditional 60/40 stock-and-bond portfolio has returned an average 6.0 percent annually under Democratic presidents, and 6.1 percent during Republican administrations.¹

Yet all too often, investors allow their partisan politics to distract them from their long-term goals and strategy—taking on too much portfolio risk when “their” candidate is in office, or too little risk when they're on the outside looking in.

Perhaps we would all benefit from heeding the advice of the Oracle of Omaha who vowed that Berkshire Hathaway would “continue to ignore political and economic forecasts, which are an expensive distraction for many businessmen and investors.”

Rather than allow our attention to be drawn in by a seemingly endless array of political firestorms and diversions, let's instead look at the economic realities as we enter the eighth year of what has now become the longest sustained bull market in history.

SECTOR IMPLICATIONS

Politics and economics do intersect to some degree in the realm of sector rotation—where political policy can offer insights into which sectors are likely to outperform. So, which market sectors stand to benefit most during the Trump administration?

biotech firms benefiting from a weakened push to rein in drug prices. (Insurers and hospitals probably face fewer obstacles than they would have now that the repeal and replacement of Obamacare seems to be on hold.)

Most in jeopardy, though, are interest rate-sensitive sectors such as consumer staples, REITs and utilities, along with large multi-nationals and exporters, where executive action could lead to excessively high tariffs, financial sanctions and certain countries being classified as “currency manipulators.”

There is no substitute, however, for a well-

“

We will continue to ignore political and economic forecasts, which are an expensive distraction.

—Warren Buffett

”

Certainly, the president's proposed \$54 billion increase in defense spending bodes well for the aerospace, defense, cyber and homeland security industries. The infrastructure sector (particularly building materials and construction firms) as well as the traditional energy sector will also likely see strong administration support, as witnessed by the rapid issue of executive orders to clear hurdles relating to both the Dakota Access and Keystone XL pipeline projects. And both the financial and technology sectors should benefit if proposed deregulation efforts and corporate tax reform come to fruition. The financial sector should also benefit from higher rates.

The healthcare sector, however, looks to be a mixed bag, with pharmaceutical and

thought-out and carefully crafted long-term financial plan (along with a correspondingly diversified portfolio). So, don't let political uncertainty cloud your judgment in a manner that may adversely impact your financial life. Markets will react to headlines, and volatility will happen periodically.

That's the cost investors must bear in exchange for enhanced investment gains over the long term. Yes, certain companies and industries are sure to be affected by the change in administrations, but macro-investment decisions aren't likely to be materially different than they were during any of the previous 56 presidential elections. ●

¹ “Annual Returns on Stock, T-Bonds and T-Bills: 1928–Current,” *New York University Stern School of Business.*

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ABOUT US

BRIAN D. HOLMES, MS, CFP®, AIF®, CMFC®, IS THE PRESIDENT AND CEO OF SIGNATURE ESTATE & INVESTMENT ADVISORS LLC. For ten consecutive years (2007–2016), Brian has been ranked in the *Barron's* annual list of the Top 100 Independent Financial Advisors. *Barron's* annually ranks the Top 100 Independent Advisors in America based on assets under management, quality of the practice and revenue generated for the firm. The outlet gives special distinction to those who have earned the accolade “Independent Advisory All-Stars” for at least a decade. Brian Holmes is one of only 12 advisors who merit this honor. Brian has been in the securities business since 1984. He is a past member of the Schwab Institutional Advisory Board and the UCLA Department of Economics Board of Visitors. He received his bachelor of science degree from the University of California—Los Angeles. A 30-year resident of Malibu, Calif., Brian is involved with numerous charities throughout Southern California. ●



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