TILIA NEWS

INVESTMENT MANAGEMENT | FIDUCIARY ADVICE | RETIREMENT PLANNING

What a Trump Presidency Means for Stocks

The United States Presidential election results came as a shock to many investors. One week after, we're in the middle of a swift rotation in markets. Investors are examining President-elect Trump's policy intentions, and in many cases, betting they'll come to fruition and assessing the potential impact. Potential winners are being flooded with new investors, while others are being cast aside like cranberry sauce after Thanksgiving.

Nowhere has the immediate impact been stronger than in the bond market, especially in longer term bonds. Investors are betting that Donald Trump will do what he has done his entire business career - borrow lots of money to build things. That idea, coupled with proposed tax breaks points to heavy deficit spending. This is driving long-term interest rates up for two reasons: 1) relying more on debt to fund government spending leads investors to demand higher interest rates 2) deficit spending spurs growth, which leads to inflation - higher interest rates are then needed to keep inflation from getting out of hand. While it's a little more complicated, that's the general idea.

The most popular index for tracking long-term treasury bonds has declined 6.5% in value since November 7th. That investment was earning interest of 2.25% annually, so the decline was nearly 3x yearly interest payments. We've been avoiding long-term bonds for some time now, and alluded to the risks back in our August 2016 newsletter in an article titled "Bond Bulls Betting on the Greater Fool". This is not a blanket argument against owning bonds. Bonds still deserve a place in most investor portfolios, but we favor short to medium term individual corporate bonds where the risks are better defined.

Interest rates increasing to non-crisis levels is healthy for most investors. Soon you may be able to go to the bank & get a short-term CD that pays more than 1 or 2%. Financial stocks have also catapulted higher with the move in rates, with some of the largest banks increasing 25-30% from the summer & about half of that return coming since November 7th. Even more important than the rate increase itself is the reasoning behind it - investors are anticipating a pickup in economic growth. That change in sentiment is a big positive for stocks.

Corporate earnings and sentiment about the future are two of the key drivers of stock prices. Going into the election, we've had negligible growth in corporate earnings (internet giants being the major exception) and extremely poor sentiment for the last 2 years. Investors were so dismal in their outlook, that many were fine with the idea of buying long-term bonds at 2-3% interest - less than the dividend yield of many US stocks. When both earnings and sentiment are negative, it usually creates an opportunity to buy stocks for the long run at reasonable prices.

Casting aside political feelings, as investors must be able to do, it is easy to muster some optimism for stocks. The incoming administration's proposed plans to cut

Tilia Launching Fiduciary Choice Accounts

One thing we hear constantly, especially from younger investors, is that it's incredibly tough to find good financial guidance when you don't have a considerable amount of money to invest. At Tilia, we are striving to build a company that outlives us. In order to do that, we need to cultivate tomorrow's great clients today. Every new relationship requires a significant time commitment, and streamlining the operation can only mitigate that so much if your goal is to maintain a high level of customization.

Most of tomorrow's great clients don't have a considerable amount of assets for us to invest. Even high-earning families typically have the bulk of their assets tied up in corporate retirement plans and real estate. In an effort to offer our services in an impactful way to a broader range of people, Tilia is launching a new service we're calling "Fiduciary Choice" accounts.

The base of Fiduciary Choice is 11 model portfolios we've constructed, consisting entirely of low cost ETFs, that span the spectrum from ultra-conservative to aggressive. We'll manage the model portfolios internally & clients will be directed into the appropriate portfolio based on an initial online questionnaire.

Once on the platform, clients can move between risk models in a measured way.

The platform is a lower tier than our full service advisory & comes at a lower price point. Clients in the platform will still have access to us for meetings on-demand, but will pay a reduced hourly rate for that time. The goal of Fiduciary Choice is not to compete with our existing service, but to instead act as an incubator for future advisory clients.

We are putting the finishing touches on the platform, and hope to officially launch it within the next few weeks. The launch will coincide with a new website for Tilia that we've been working on for a number of months. We're extremely excited to get it up & running.

Tilia's Newest Intern

If you've called or stopped by our office on a Friday lately, chances are you've spoken with Mr. Gianni Cinelli. We're very happy to have the young man involved at Tilia. He's a sophmore accounting major at UNCW, who grew up in a small business environment. Gianni's parents own & operate a successful restaurant & pizzeria in Raleigh, NC. Gianni has proven himself to be a hard-worker at UNCW, making the Dean's list in his latest semester and taking leadership roles in an honors' Fraternity as well as the Residence Hall association. At this point, Gianni is mostly working on Fridays, but we hope to increase his hours in the coming semesters.

corporate & individual taxes, while providing fiscal stimulus & reduced regulation is a recipe for higher stock prices. President-Elect Trump's stance on trade is potentially problematic & inflationary, but tax-relief & stimulus are positive driving forces that will likely face lower legislative hurdles.

It is worth noting, that following the end of an 8-year administration, many incoming President have had to deal with a recession within their first year of office: 2009/Obama, 2001/Bush, 1990/Bush, 1961/Kennedy, 1953/Eisenhower, 1921/Harding & 1910/Taft, just to give the more modern examples. It's important to remember that each of those instances were different, and the slide towards recession had already began in numerous cases before the new administration took office. Following the "Great Recession" of '08-'09, we've had one of the slower and weaker recoveries in history. Risk-taking is moderate for this far into an expansionary cycle, interest rates remain near historic lows, sentiment for stocks is poor, stock valuations are reasonable, and the yield-curve (short term interest rates vs. long term rates) is getting steeper. While these are not indicative of a looming recession, risk-management is still extremely important.

Just like Republicans that sold their stocks following the election losses of 2008 & 2012, Clinton supporters that let politics spill over into their investment outlook risk doing irrepairable damage to their future net worth. As investors, we can't dwell on who deals our cards, but it is imperative that we play the hand we are dealt to the absolute best of our ability. That's what we're trying to do for each of our clients here at Tilia.

A Strata Solar field in Williamston, NC

Re-Electrifying America

In 1935 the Roosevelt administration established the Rural Electrification Administration. Moving the country forward from the Great Depression, $210 million dollars over the next 3 years was spent installing 100,000 miles of power lines across the country. The REA effort, grand as it was, pales in comparison to burgeoning growth in electric power today.

GM will begin selling a $30,000 car with a 230 mile range in coming weeks, solar power cells can now be manufactured to look like standard roof shingles, wind power kilowatt hour-costs now compete with fossil fuel in some markets, and nuclear and gas fired plants are rising where coal-steam electrical plants once stood.

Renewable, location-centric, affordable power is coming on-line across the country and leaving the attachment to climate change behind - it's almost mainstream now. Our lives are become simpler and more independent because batteries last longer, homes are coming off the grid, and the country needs not to rely on international trade for its energy needs. The productivity, investment, innovation and growth benefits are just now being realized. Something we take for granted, electricity, is being reinvented.