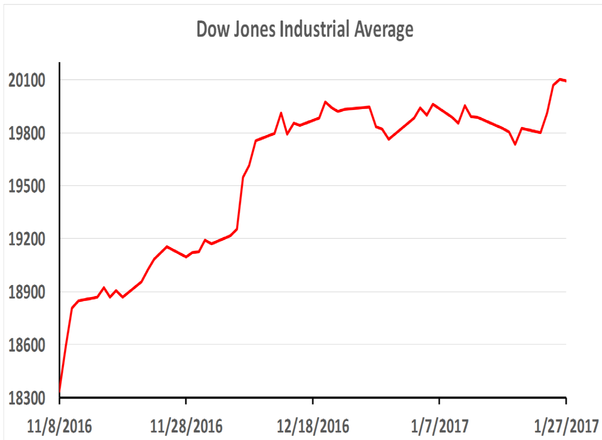
Robshaw & Julian Associates, Inc.
Trusted Investment Advice Since 1979

Investment Matters

For the quarter ended December 31, 2016

The Trump Bump

Whatever you may think about Donald Trump as president, it's obvious that his election has had a positive effect on the stock market. From the market close on Election Day the Dow Jones Industrial Average returned more than 9% in the next three months. In the three months prior to the Election the return had been slightly negative.



The Dow Jones Industrial Average has returned over 9% since Trump was elected

Although skeptics are arguing that the rally will certainly reverse when Trump himself stumbles, there is considerable evidence that the Trump election is not the only reason for the market rally.

First, the direction of interest rates, which has a high correlation with expected growth and inflation, has been up for the last seven months. The 10 year Treasury bond yield nearly doubled from 1.4% in July to 2.6% recently. Short rates, which are controlled by the Federal Reserve, have also gone up and are expected to rise all this year.

Most economists have been raising their expectations for economic growth both here and abroad. Although U.S. growth has been stuck at 2% for the last seven years, projections for 2017 are closer to 3%. Bullish growth forecasts are partly based on a worldwide excess of liquidity, fading memories of the financial crisis, rising consumer confidence numbers, improving corporate profits and other indicators.

The past seven years have been characterized by tight lending standards, slow loan growth, weak business investment weak industrial production growth and falling inflation. All of these measures appear to be improving recently.

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The stock market itself is also telling us that better growth lies ahead. Financial stocks which were dead in the water for seven years, have strongly outperformed the broad market since last summer. Strong financial stocks have often been a harbinger of better economic growth. Other economically sensitive market sectors are also beating the general market, including, Materials, Industrials and Energy. Importantly, these trends preceded the Election by at least a month, suggesting that they are not due to Trump winning the Presidency but to a real change in economic expectations.

For a complementary review of your investment portfolio please call our office at (716) 633-6555 to schedule an appointment at your convenience.

Protective Tariff Record Not Good

President Trump has threatened to use protective tariffs in an effort to prevent U.S. jobs from going to other countries, namely Mexico and China. It has been more than 80 years since the U.S. last employed broad based tariffs in this manner and the results of that experiment were catastrophic, i.e. The Great Depression. More recently however, even relatively small tariffs applied to protect specific industries have had counter-productive results.

The 2009 tariff on Chinese tires is a typical example. The tariff was enacted by President Obama in response to a petition from a tire makers union. The tariff on Chinese tires was raised from 4% to 35% for the first year then dropped to 25% over the next two years. It was subsequently credited by the President with saving over 1,000 U.S. jobs.

Here are the actual results as reported by the Peterson Institute for International Economics in 2012: The tariff saved about 1,200 jobs at tire manufacturers. It also allowed tire producers to increase their prices. It is estimated that these price increases caused U.S. consumers to pay an additional $1.1 billion for tires or $926,000 per job saved each year. Only 30% of the increased sales went to domestic tire makers; the rest went to other foreign tire makers.

But that's not all. With less

Continued on page 2.

Tariffs: Cont.

money in their pockets American consumers reduced purchases of other items. Reduced retail sales resulted in 3,700 job losses in the retail sector. If these job losses are considered the net loss from the tariff was 2,500 jobs.

But that's still not all of it. The Chinese reacted by imposing antidumping duties on U.S. exports of chicken parts. This is estimated to have cost that industry around $1 billion in reduced export sales and caused even more job losses.

Tariffs are popular because their benefits accrue to a small and highly visible group of producers and workers. Because the losses are spread over the entire economy they are all but invisible to the average person.

President Trump may be using the threat of tariffs as a bargaining tool to improve our trade position or he may actually mean to make good on his threats. A watchful eye on the outcome may help protect your investment portfolio.

Not Widely Known

In the last 20 years hedge funds have outperformed the S&P 500 Index only six times, none of them in the last ten years.

At the end of July 2016 there were 5.8 million unfilled job openings in the U.S. The shortfall in welders alone runs to 240,000 jobs.

Approximately $9 trillion of economic activity or 50% of the entire U.S. economy takes place in just 18 metropolitan areas in the U.S.

Judge Alex Kozinski of the 9th District Court pointed out recently that the key to monopoly is not market share – even when it is 100% - but the ability to keep others out.

Various studies show that, of the 5 million manufacturing jobs lost since 2000, 85-88% of them were the result of rising productivity, not foreign trade.

The Energy Information Administration for the U.S. Government recently projected that fossil fuels will account for 79% of our energy consumption in 2050, only a 4% decline from today's 83%. They also forecast that renewables will nearly double while nuclear declines.

Britain's publically funded National Health Service currently has over 500,000 people on the waiting list for hip, knee and other orthopedic surgeries.

The US produced slightly more manufacturing output in 2015 ($2.17 trillion) than the combined manufacturing output ($2.12 trillion) of the six countries of Germany, Korea, India, Italy, France and the UK.

Despite declining per capita beer consumption, the number of U.S. breweries has risen from 89 in 1978 to more than 5,000 today.

Of all the firms in the Fortune 500 in 1959 only 60 remain today. American Motors, Brown Shoe, Studebaker, Collins Radio, Detroit Steel, Zenith Electronics and National Sugar Refining are out. Facebook, eBay, Home Depot, Microsoft, Google, Netflix, Office Depot and Target are now in.

Since the creation of the Federal Reserve in 1913 the U.S. Dollar has lost 96% of its purchasing power value due to monetary inflation.

Spending on "energy goods and services" was below 4% of total personal consumption expenditures last year for the first time ever. In 1930 it was 8%.

From 1973 to 2015 the inflation adjusted value of all recorded music sales fell from $11 billion to $7 billion due to the progression which started with expensive vinyl records and is now dominated by much cheaper and more efficient downloaded music.

In the last 20 years the price of college textbooks has increased well over 200% while the prices of television sets, software and toys have all declined more than 50%.

Robots are now being introduced for connecting deep drilling pipe on oil rigs. One robot can replace four oilfield workers.

The Bottom Line: 12/31/2016

Market Indicator	Current Value	One Year Change
Large company stocks *(S&P 500 Index)*	2139	12.0%
Small company stocks *(S&P Small Cap Index)*	838	26.5%
Short term interest rates *(3 Month T-Bill Yield)*	0.5%	From 0.2%
Long term interest rates *(10 Year T-Bond Yield)*	2.4%	From 2.3%
Inflation *(Consumer Price Index)*	243.0	2.1%
Energy *(West Texas Intermediate Crude Oil)*	$53.72bbl.	44.9%
The economy *(Inflation adjusted GDP)*	$18.9 trillion	1.9%

QUOTABLE

"It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner but from their regard to their own self interest." Adam Smith, Economist."

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