

This economic commentary is designed to present the firm's current views on timely topics that we feel may be of interest to our clients. Viewpoints is also available electronically on our website: SLOCUMGORDON.COM.

When Churchill said that “It is always wise to look ahead, but difficult to look further than you can see,” he might well have been directing that advice to political pollsters and investors. Given what has transpired over the last month since the election, the world suddenly seems less predictable, more prone to changes on all fronts, and inclined to wildly differing outcomes from prior expectations; actually, not altogether a bad thing, given that the global economy has been very near stall speed since the “recovery” from the Great Recession.

Global central banks have ripped up the text books with their unorthodox monetary stimuli that were supposed to fuel the expansion, but did not achieve the goal. Federal spending in

the U.S. was increased dramatically to move the economy off zero, but only served to increase the national debt further. And the Congressional stalemate for the last decade or more has made voters more frustrated than ever for some sense of progress in the search for better jobs and an expanding economy.



became reality, and the markets, which days and weeks before the election feared a Trump presidency with predictions of a major crash, have performed miraculously well ever since. Many of the new initiatives expounded by the incoming administration have served to spark



the animal spirits on Wall Street which has the propensity to react quickly, and often somewhat blindly, to optimistic opinion makers well ahead of the reality of the event.

Global changes like Britain's Brexit and Trump's election have occurred or are forecast in many countries facing similar economic challenges: Italy, Greece, Germany, France, Netherlands, Austria, Finland, and Hungary, to name just a few. Compounding these global issues are questionable growth trends in



China, an expansionist Russia, and continuing unchecked terror events around the globe. The fact that the proposed administrative team has good credentials and experience should be an encouraging force against some of these disparate eventualities, but the nature of the uncharted water we are all trying to navigate continues to plague the traditional way in which economists and investors attempt to place value on the future of invested assets.

We would agree with the respected bond investor, Bill Gross, who recently opined: "Demographic negatives associated with an aging population, high debt/GDP now more at risk due to rising interest rates, technology displacement of human labor, and finally the deceleration/retreat of globalization pose negative ongoing threats to productivity and therefore GDP growth. Trump's policies may grant a temporary acceleration of GDP growth over the next few years, but a 2% longer term standard is likely in place that will stunt corporate profit growth and slow down risk asset appreciation."

For the last many years, in fact since our firm's inception, we have placed great emphasis in the value of dividends paid by companies that have long track records of paying and increasing those dividends. Managements that share the profits with their shareholders in this way make an important statement: they are optimistic enough about their company's future to commit to an increased dividend payment, and they recognize that the benefits of investing accrue over the long term as higher earnings and dividends historically can lead to increased stock prices.

However, at various times in the stock market psyche, short term preferences can change very quickly and turn into fads for a while. Income, in the zero-rate environment we have been in for so long, has been in short supply which has benefitted dividend-paying stocks, pushing them ever higher in price. Since the election-fueled stock market rally, higher-income securities have taken a back seat as interest rates have moved up anticipating the Trump infrastructure



spending plans. Growth has prevailed as the main objective for the moment, and those more economically sensitive stocks have outperformed more defensive investments.

Our view is that, 1: the Trump infrastructure spending proposals, if passed without contest, are, at best, a 2018 or 2019 event; 2: the Fed will be hard pressed to increase rates materially; 3: the stock market has already pulled forward some of the more optimistic expectations incumbent in the Trump proposals; 4: the bond market may have largely discounted potentially higher levels of federal spending that typically raise the cost of money; 5: we continue to be in an over-supply global economy which is fundamentally deflationary in its effect on prices.

Consequently, our investment posture remains intact with a healthy dose of caution in markets that have built in very optimistic expectations in a world that can rapidly frustrate and surprise investors. What was once a market influenced by thoughtful securities and news analysts is one now prone to instantaneous reactions to single words or phrases uttered on the “Twittersphere”. Looking ahead, at least as far as we can see at the moment, 2017 should be another volatile year in the markets, but with a conservative, income-based strategy that is designed to weather *most* storms, we should see further progress in our objective to maximizing the return with the minimum of risk.

Meanwhile, here on Mill Street, now entering our 39th year in business, we remain extremely grateful for the confidence our clients have

expressed in our firm. We are very focused on protecting the sensitive and confidential nature of our clients’ information, and we are enclosing our privacy statement in our year-end mailing. Finally, in compliance with Rule 204-3 (c) of the Investment Advisers Act of 1940, we are making our annual offer to send you our current brochure.

With our best wishes for a prosperous New Year.



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