

# PETERSON FINANCIAL SERVICES

Limited Liability Company ♦ Registered Investment Advisory Firm

FINANCIAL  
FOCUS

*THE MARKETS,  
WHICH ARE  
POLITICALLY  
AGNOSTIC, ARE  
SIGNALING  
OPTIMISM  
ABOUT OUR  
ECONOMIC  
FUTURE.*

## **In This Issue:**

- Quarterly Market Recap
- Lighter government intrusion into the economy will bring more prosperity and restore the rule of law.

## **Fourth Quarter 2016**

January 3, 2017

### ***QUARTERLY MARKET RECAP***

What was shaping up as a dismal year for the stock market reversed course with a healthy post-election rally that elevated the indexes.

For the quarter, the DJIA returned 7.94%, the S&P 500 added 3.25%, and the NASDAQ advanced by 1.34%. Small caps performed particularly nicely, rising a healthy 8.43%. Foreign markets finally made some headway earning 5.05%. The DJ Corporate Bond Index declined 3.83% as the speculation about the Fed's rate decision finally became policy reality. Bonds will struggle going forward.

Leading up to the national election, virtually

all the prognostication held that Clinton would win and the status quo would continue. Those of you who discussed this with us then heard us speculate that we weren't so sure that would be the outcome, given that two-thirds of those polled thought the country was headed in the wrong direction. But, we didn't have enough conviction one way or the other to actually predict the outcome – we just weren't as surprised as many others when it came about.

In the aftermath of the election, there is widespread optimism that we may get this economy jump started. That said, policy changes must be implemented quickly and deliver early results.

### ***EARLY INDICATORS BASED ON NOMINATED ADVISORS AND PROPOSED POLICY CHANGES ARE ENCOURAGING***

This newsletter makes no bones about what we think regarding the intertwined relationship between specific government policies and the economy and the markets. We've discussed in the past what does and doesn't historically work regarding economic prosperity. Readers can refer to recent letters (2Q14 and 4Q15, for example) regarding this. While there is uncertainty as to what exactly will become new policy, there is certainty that changes are afoot. And we're encouraged on many levels so far.

President-elect Trump's nominated advisors are an indication that the incoming administration will be serious about reversing some of the most damaging policies of the last eight years. His choice for Chairman of the Council of Economic Advisors, Larry Kudlow, is particularly noteworthy, as the thoroughly discredited Keynesian mindset will be ditched in favor of proven policies that embrace incentives for growth. He has both real-world private sector as well as government experience, and he is a free trade advocate, which should counterbalance some of Trump's own trade protection

tendencies, which are off-base.

Speaking of that, we'd like to see Trump let up on the trade-war rhetoric. It may play well as a populist talking point directed at economically-ignorant voters during the election season, but as economic policy it's dangerous. Trade protectionism via the Smoot-Hawley legislation is what created the Great Depression out of what was otherwise a normal and manageable economic downturn. What Trump has done somewhat - but should focus exclusively on - is address competitive imbalances built into our tax and regulatory regimes. Instead of parroting the opposition's denunciation of American corporations' use of so-called "tax inversions", he should be asking why our government has created such an unbearable environment for business in which these companies feel they're being pushed overseas in order to do what they are responsible for: creating maximum after-cost profit.

America has built in a competitive advantage for our foreign competitors – not our own domestic firms. We have the absolute highest federal corporate tax rate of the entire OECD nations, and because some of our states lard on

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their own additional taxes, it's even worse. And, we're one of only two of those 38 countries which taxes profits both in the country they're earned and at home. This puts American multinational companies at a huge competitive disadvantage. Globalism, for all the misplaced rhetoric against it, is not going away. Ever. We need to work within that construct, not fight it.

Corporations are an easy target for populist demagogues, because they are faceless, non-human entities. But the fact is, all they are is legal arrangements to do business. Corporations don't pay taxes – their employees, shareholders, and customers do. All company costs are passed on either as reduced profits, fewer employees, or higher prices. So when politicians beat up on companies and say idiotic things like they need to pay their "fair share" – whatever that is – all that would accomplish is hurting people.

Many of the nominated heads of departments and agencies are avowed critics of the very operations they'll be running. This is advertised by the media as reason to pillory them, but in reality, this is the only way to reform them. Logically, you can't reform a bureaucracy if you don't think there's anything wrong with its operation. Much of our federal government has become completely dysfunctional, not even able to perform the most basic and necessary tasks with any level of competence. They need to be completely shaken up and reformed.

It's been characterized as a criticism by many on the Left that Trump's picks to run various agencies and departments lack government experience. We'd suggest it is these career government "experts" who have created the

mess we now find ourselves in, and that those with a proven track record of actual success in the real world be given a shot at sorting it all out.

One thing is for sure, the markets are expecting positive policy reversals on at least the tax and regulatory fronts. Economic freedom is a proven recipe for higher standards of living, more growth, and prosperity, and the investor class (of which we all belong) thinks that's coming.

Policy debacles like ObamaCare, Dodd-Frank, lax involvement in global affairs, and many others may be difficult to amend, but must be. Misguided proposals like the ridiculous \$15 minimum wage at least have little chance of making things even worse now. But we'll reserve judgment until we see actual proposals and realize which of those proposals are able to be translated into law. There is still a vigorous opposition that wishes to maintain the status quo. And even if changes are made into law, it takes time for the effects of those changes to work into the data and be felt in peoples' lives.

The official unemployment figure is misleading in that it only accounts for people filing claims for unemployment, which after 99 weeks can no longer be done. But when those folks drop out of the equation, it doesn't mean they've secured work. It only means they can't make any more claims to benefits. The dismal labor force participation rate reveals this. Our hope is that a new direction will improve employment early on.

*"If you're not a socialist in your twenties you have no heart. If you're not a capitalist in your thirties, you have no mind."*

*-Sir Winston Churchill*

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*Pursuant to SEC Rule 204-3 (C) of the Investment Advisors Act of 1940, we hereby offer, without cost, a copy of our "Disclosure Statement", Form ADV Part II, which is the document attached to your copy of our Service Agreement. Please e-mail us, or mail us, a written request if you'd like another copy and we'll send it in February after we update our annual filing. Also, in conformance with Regulation S-P of the Gramm-Leach-Bliley Act, we are required to provide annual notice of our Privacy Policy. Our policy is posted to our website, and is mailed to each client.*

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## ABOUT PETERSON FINANCIAL SERVICES, LLC

As an aside, we wish to remind our clients of our various services. While we've specialized in portfolio management over the last several years, we continue to provide financial planning and insurance services. Longtime clients may have forgotten this, and newer clients may not be aware of this. Additionally, we build our business through referrals, and much appreciate them. Please keep us in mind as you come across friends, family and colleagues who might benefit from our financial services. We appreciate your business.

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