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THE TEMPO VANTAGE

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Where's Nostradamus When You Need Him?

Two thousand sixteen has to be the worst year ever for pollsters. First they horribly missed in their predictions of the Brexit vote. Then they missed again in their predictions of the U.S. Presidential election.

Interestingly the market reactions to both events were similar. A swift decline followed by a swift recovery.

Did you stay up late on election night? As it was becoming more and more likely that Trump would win stock futures were plummeting. (I don't use a word like plummet lightly, and it bugs me when I see the financial press use this word for minor declines.) At one point the Dow Jones Industrial Average futures were down over 800 points, or more than 4%.

As the night wore on the losses were pared. And by the end of the first trading day after the election the markets were actually higher by 1.4% as compared to the previous close. Amazing!

This is yet another example of "Traub's Market Law #1." When all market participants are of a singular mindset you can bet on the opposite. In this case people were absolutely convinced that if Trump won the markets would fall.

Let's put the Trump rally in perspective. The S&P 500 gained 3.8% for the quarter. But international stocks were down -1% and the BarCap Aggregate Bond Index was down -3%.

Immediately following the election financial participants turned their attention to the implications of a Trump administration and who would win and lose.

The biggest reactions were related to two of Trump's major campaign themes: his pledge to spend $1 trillion on infrastructure and his tough talk on international trade and tariffs. Both policies are seen as inflationary. Indeed since the election the yield on 10 year treasuries has risen from 1.86% to over 2.42%. As a result most bonds lost money in the fourth quarter. The worst were long term government bonds that lost in excess of -10%.

Stocks have also reacted, some positively and some not so positively. Financial stocks such as banks tend to do well in rising interest rate environments. Combine that with the prospect for less regulation in a Trump administration and the fact that banks have largely under-performed since the financial crisis of 2008 and you get a recipe for out-performance. The average financial mutual fund rose 17% in the fourth quarter.

Small cap stocks also outperformed, gaining about 11% for the quarter. Why? Tougher trade policies make imports more expensive and domestic companies more competitive. With less international exposure small cap stocks have also not been hurt by the strong dollar, which has been a detriment to large multi-national companies.

Then there is the case of healthcare stocks. This sector has been put in serious question from an investor's standpoint in the sense that The Affordable Care Act is now in jeopardy.

Those of you who have been with Tempo for a while may recall when I first over-weighted healthcare stocks within Lifestyle Portfolios many years ago. I did that because I saw the Affordable Care Act (ACA) as increasing the demand for health care services. We made a lot of money on that trade.

But healthcare stocks lost over -6% in the fourth quarter and it may not get better anytime soon. With the prospect of the ACA being reversed I find health care stocks less attractive - at least for the next few years. It is all about supply and demand. In this case less demand. You may have noticed that I sold our over-weight position in early December.

I've been an investment advisor for going on 30 years now (yikes!) and I don't recall any other presidential election having anything close to the impact as this one in terms of broad financial shifts.

And Trump isn't even in office yet!

I'd like to see the pollsters try to predict what he will tweet, er, I mean do when he gets there.

Tempo Financial Advisors' 4th Quarter Investment Performance

The Tempo Lifestyle Program had the most successful quarter both in terms of absolute performance and performance relative to benchmarks. Returns ranged from more than 3% for conservative accounts to over 4% for more aggressive accounts. These results are between 1.5% and 2% better than our benchmarks. It doesn't get much better than that for a single quarter. How did we do it?

Readers of the Tempo Vantage Newsletters know that I have been positioning Lifestyle portfolios for well over a year anticipating two themes: higher interest rates and a strong dollar. So when Trump won and the market started reacting we were already well positioned.

Overweight in financial stocks. Check. Foreign positions hedged for dollar strength. Check. Bond positions with low interest rate risk. Check. Small cap U.S. equity exposure. Check.

About the only position that did not work so well for us was our over-weight in healthcare. While this had been a very profitable long term investment the tide seems to have turned for healthcare stocks. As you now know the position was sold in early December.

Lest you think the fourth quarter out-performance in Lifestyle was an aberration I am pleased to report that returns for the year of 9% for conservative accounts to 11% for aggressive accounts were between 3% and 4% better than benchmarks.

Also having a successful quarter and year both in absolute return as well as relative to benchmarks was the **Tempo Dynamic Growth Portfolio.** For the quarter accounts were up +2.3%, which was about 0.8% better than our benchmark. And for the year accounts were up 6.3%, which was about 1% ahead of benchmarks.

The news for the **Tempo Dynamic Income Program** is less up-beat. Our return in the fourth quarter was down -3.2%. As you may know we maintain a number of benchmarks for Dynamic Income. One is the BarCap Aggregate Bond Index, which was down -3%. So we were in the ball park relative to that benchmark. But we trailed our other benchmark (Morningstar Conservative Allocation funds) by about 2.5%.

For the year Tempo Dynamic Income was up 1.8%. This trailed the BarCap Aggregate Bond Index by a little over half a percent and the Morningstar Conservative Allocation benchmark by over 3%.

Overall the Dynamic Income results for the year were mixed. On the one hand we did make some money. On the other hand we strive for both positive results and benchmark beating results. Therefore I certainly do not consider the year a success.

The good news is that accounts have been rebalanced per the strategy and Dynamic Income has started the New Year on a positive note, gaining about 0.6%, which is ahead of benchmarks.

Reminder

Please contact us if there has been a change in your financial circumstances that would warrant a fresh perspective on your portfolio.

Dan

Daniel J. Traub