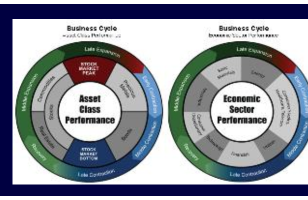
Investors Monitor



Investment Research for RIAs, Hedge Funds and High Net-Worth Individuals

Free Weekly Investment Commentary

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Trump Presidency Now in Question, as the Left-Wing Media Ramps Up its Attacks Against the Republican Candidate

After thinking over the past several months that Donald Trump would have a good chance of being elected as the next U.S. President, I'm now less confident of such an outcome. That's because instead of focusing on his sound economic proposals, Trump has continued to make foolish, and very unnecessary, comments about persons who insult him. And, the left-wing, mainstream media has taken every opportunity to respond negatively to Trump's comments by ramping up its attacks against the Republican's candidate for the Presidency.

The latest incident involves Trump's responses to comments made by Khizr Khan, the father of a slain American soldier who was killed during 2004 in the U.S.'s war in Iraq, at the Democratic National Convention on July 28. On that night, Khan criticized Trump for his proposal to temporarily ban Muslims from entering the United States until the U.S. government is better able to determine whether any such persons might have ties to terrorist organizations or who might present a threat to the nation's national security.

Specifically, Khan said, "If it was up to Donald Trump, he [Khan's dead son] never would have been in America." Khan then lied about Trump, saying, "Donald Trump consistently smears the character of Muslims. He disrespects other minorities; women; judges; even his own party leadership."

He later added, "You [Donald Trump] have sacrificed nothing and no one.

Trump responded to Khan's comments, saying initially, "I saw him. He was very emotional, and probably looked like a nice guy to me. His wife, if you look at his wife she was standing there, she had nothing to say. Probably, maybe she wasn't allowed to have anything to say, you tell me, but plenty of people have written that. She was extremely quiet and it looked like she had nothing to say, a lot of people have said that, and personally I watched him, I wish him the best of luck." In essence, Trump implied that Mrs. Khan remained silent during her husband's speech because her religion might have prevented her from speaking. (The Khan's are Muslims and American citizens who were born in Pakistan and immigrated to the United States during 1990).

Then, when asked the following day by ABC's George Stephanopolous, "What sacrifice have you made?" Trump responded very foolishly, saying, "I think I've made a lot of sacrifices. I've worked very, very hard. I've created thousands and thousands of jobs, tens of thousands of jobs."

As a result of those foolish comments, the left-wing media has attacked Trump repeatedly, suggesting that he's not qualified to be the United States' President. And, due largely to those attacks, Trump is now trailing Hillary Clinton by a wide margin in election polls.

Now, before continuing I want to make something very clear to our readers: I have never been impressed by Mr. Trump's supposed business acumen, and I couldn't care less about his personal religious or social views. But, I do care immensely about his economic proposals. That's because there's plenty of historical evidence to suggest that an implementation of those proposals, which include the following, would stimulate the U.S. economy and enable the economy to grow at a fast pace over the next few years.

- Reducing U.S. tax rates substantially for individuals, families and businesses.
- Repatriating more than $2 trillion of cash held abroad by U.S. companies at a substantially-reduced tax rate of only 10%, followed by an end to the deferral of taxes on corporate income earned abroad.
- Reducing government regulations that curtail business investments.
- Making substantial investments in U.S. infrastructure projects (twice the amount of infrastructure investments proposed by Hillary Clinton).

In contrast, Hillary Clinton has proposed the following:

- Imposing a four-percent surcharge tax on Americans who make more than $5 million per year, and imposing a 30% minimum tax-rate on persons who make more than $1 million per year.
- Increasing estate taxes on multi-million dollar estates.
- Imposing a 39.6% tax-rate on personal investments held for less than two years, regardless of the investor's income tax bracket, and increasing the tax-rate on personal investments held for 2-3 years to 36%, from the current rate of only 20%.
- Raising the minimum wage to $15 per hour.
- Increasing investments in U.S. infrastructure projects.

Although I agree with Clinton's proposal to increase investments in U.S. infrastructure projects, Trump has proposed spending twice as much as Clinton on such projects. Specifically, Trump has proposed spending approximately $500 billion on infrastructure projects over the next five years, while Clinton has proposed spending $275 billion on such projects over the same period. Trump's plan would involve the creation of an infrastructure fund that would be funded by U.S. government bonds. In contrast, Clinton's plan would be funded by "business tax reform" – by increasing taxes on U.S. businesses.

Very surprisingly, Clinton has even proposed raising tax-rates on the middle-income Americans, saying on August 3, "We are going to raise taxes on the middle-class".

While Clinton's proposals might appeal in an emotional way to lower-income Americans, studies have shown that an implementation of those proposals would likely fail to stimulate the U.S. economy.

In contrast, past implementations of the types of tax proposals made by Trump were very successful in stimulating the economy. For example, the U.S. economy grew at an average annual rate of around 3.6% from 1922 to 1929 after the highest marginal tax rate was reduced to 58% in early 1922, from 73% in 1921, under the Warren Harding and Calvin Coolidge administrations.

In a similar manner, the U.S. economy grew at an average annual rate of around 5.1% from 1964 to 1968 after the highest marginal tax rate was cut to 77% in 1964, and to 70% in 1965, from 91% in 1963, under the Kennedy administration.

And, the economy grew at an average annual rate of around 4.6% from 1982 to 1989 after the highest marginal tax rate was reduced to 50% in 1982, from 70% in 1981, under the Reagan Presidency

U.S. stock prices also rose substantially during the periods mentioned above, with the Dow Jones Industrial Average rising by more than 4-fold from 1922 to 1929, by 38%, from 1964 to 1968 and by approximately 150% from 1982 to 1989.

Latest Economic Developments

In regard to recent economic developments in the United States, the U.S. Department of Commerce reported on July 27 that orders for durable goods (i.e. household appliances, automobiles and business equipment) declined during June by 4.0%, as compared to the prior month, and by 6.4% compared to the same month a year ago. That's a very significant (and negative) development, because the U.S. economy and U.S. stock prices have historically moved in the same direction as orders for durable goods.

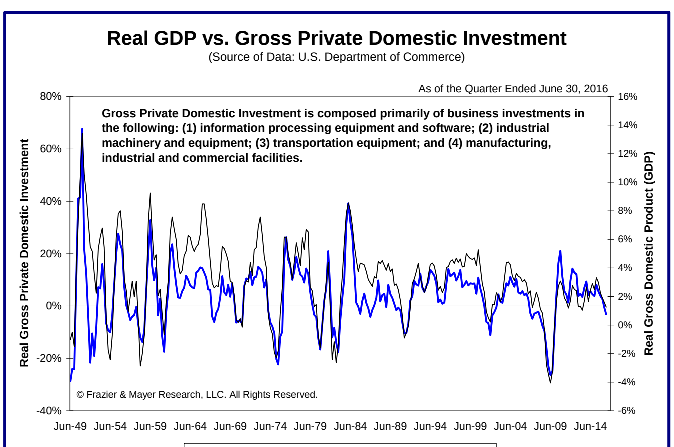
With the University of Michigan reporting on July 29 that its latest survey of Americans' expectations for the direction of the economy, their personal finances and employment opportunities for the next six months fell sharply during July, there's a good chance that Americans' spending on durable goods, as well as their spending on various types of other goods and services, will continue to decline during the months ahead. That's because U.S. households tend to rein in their spending when their economic expectations worsen.

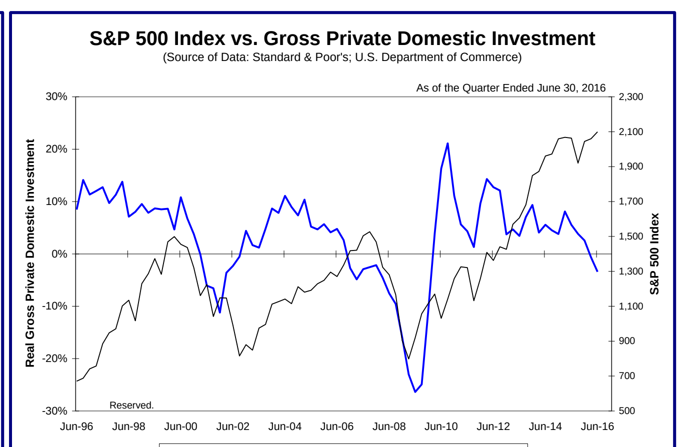
Of utmost concern, the Commerce Department reported on July 29 that business investments (gross private domestic investment) fell sharply for the three months ended June 30, 2016.

Specifically, gross private domestic investment declined during the quarter ended June 30 by 3.4%, as compared to the same quarter a year ago, and by a whopping 10.1% on an annualized quarterly basis. That's after business investments declined by 0.7% on a year-over-year basis for the quarter ended March 31, 2016 and slowed considerably over the three prior quarters.

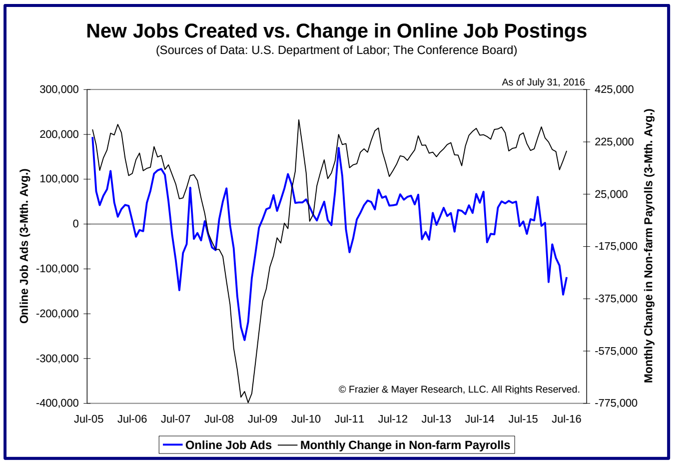
As you can see from the first chart below, the recent declines in business investments suggest that the United States' pace of economic growth will continue to slow over at least the next few months after expanding by only 1.2%, on a seasonally-adjusted basis, for the quarter ended June 30, 2016, as compared to the same quarter a year ago. (That's down from a year-over-year rate of 1.6% and 1.9% for the quarters ended March 31, 2016 and December 31, 2015, respectively. It's also the fifth consecutive quarter that the United States' pace of economic growth slowed).

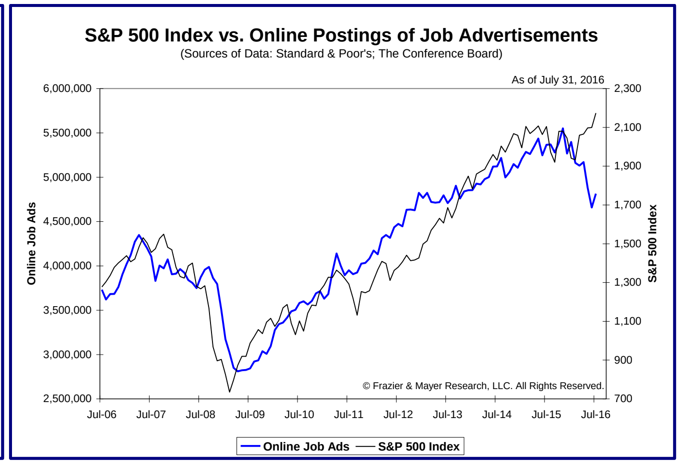
And, as you can see from the second chart below, U.S. stock prices tend to also move in the same direction as business investments.





Although the U.S. Department of Labor reported on Friday that 255,000 new jobs were created during July in the United States, on a seasonally-adjusted basis, recent postings of job advertisements on Internet web sites suggest that substantially fewer jobs will be created over the next few months. That's also a very significant (and negative) development because U.S. stock prices tend to move in the same direction as online job advertisements and the creation of new jobs.





On somewhat of a positive note, the latest economic statistics from abroad indicate that the worst might be over for the Eurozone, Japan and China.

For example, Markit Financial Information Services reported on August 1 that during July manufacturing activity in the Eurozone increased for the 37th consecutive month, while manufacturing activity in Japan declined at a much slower pace than during the two prior months and manufacturing activity in China rose for the first time since February 2015.

Specifically, Markit reported the following regarding its indices of manufacturing activity for the Eurozone, Japan, and China:

- The Eurozone's index of manufacturing activity declined to 52.0 during July, from 52.8 during June.
- Japan's index of manufacturing activity Japan rose to 49.3 during July, from 48.1 during June.
- China's index of manufacturing activity rose to 50.63 during July, from 48.6 during June.

(Readings greater than 50.0 on the indices outlined above indicate expansion while readings less than 50.0 indicate contraction in the manufacturing sector)

Markit said the following regarding manufacturing activity in the countries mentioned above:

<u>The Eurozone</u>

Five out of the seven [Eurozone] nations for which data were available saw an improvement in operating performance during July.

Markit's Chief Economist, Chris Williamson, said: "Although signalling an easing in the pace of expansion in July, the PMI [purchasing managers' index for the Eurozone manufacturing sector] points to steady manufacturing growth."

<u>Japan</u>

Manufacturing conditions in Japan worsened at a weaker pace at the start of the third quarter of 2016. Production decreased at the slowest rate since March, helped by a softer fall in new order intakes.

According to panellists, a reduction in foreign demand resulting from the appreciation of the yen led to a fall in output. However, the rate of contraction was only marginal and weaker than the average over the current five-month sequence of declines.

<u>China</u>

July survey data signalled a renewed upturn in operating conditions faced by Chinese manufacturers, with output, new orders and buying activity all returning to growth.

Driving the headline index higher in July was a renewed rise in total new business. Though moderate, it was the first time that overall new orders had increased since March.

Manufacturers raised their production for the first time in four months. The rate of expansion, though modest, was the fastest seen in two years.

Commenting on China's manufacturing activity, Dr. Zhengsheng Zhong, Director of Macro Economic Analysis at CEBM Group said, "... the Chinese economy has begun to show signs of stabilizing due to the gradual implementation of proactive fiscal policy. But the pressure on economic growth remains, and supportive fiscal and monetary policies must be continued."

Separately, Japan's Customs Office reported on July 24 that the country's exports declined during June, the latest month for which data is available, at a much slower pace than during the previous two months. Specifically, Japan's exports declined by 7.4% during June, as compared to the same month a year ago, following year-over-year declines of 11.3% and 10.1% during May and April, respectively.

And, Japan's unemployment rate fell during June to its lowest level since October 2015.

Trading Action

Meanwhile, the recent trading action on stock exchanges around the globe suggest that stock prices, in general, will continue to trade sideways during the week ahead after the world's major stock market indices ran last week into some price-resistance levels. The fact that the rally in U.S. stocks that occurred over the past six months was accompanied by relatively light trading volume seems to support that forecast.

Meanwhile, data provided by State Street Corporation, which provides financial services to thousands of institutional investors around the world, indicate that those investors became the most defensive since December 2013 in regard to their investment allocations. And, individual investors continued to withdraw large amounts of money from stock mutual funds, indicating that, in the aggregate, those investors remain concerned about the future prospects for stocks.

Advice

As a result of the factors and developments discussed in the sections above, I'm continuing to advise my firm's clients, and persons who subscribe to our ***Free Weekly Investment Commentary***, to allocate the majority of their financial market assets to cash-like investments (i.e. money-market securities) and to a few relatively-safe, yet high-paying dividend securities, including **Gabelli Equity Trust Inc. Series H Cumulative Preferred Stock (GAB-PH)**, **Welltower Inc. (HCN)**, and **Nuveen S&P 500 Buy-Write Income Fund (BXMX)**.

However, as I mentioned in our July 25 Weekly Commentary, in the event that stocks were to pull back considerably and to then hold above some key price-support levels, I would likely advise financial market participants to allocate a portion of their assets to the following securities:

- Caterpillar (CAT)
- Granite Construction (GVA)
- Quantas Services (PWR)
- General Electric (GE)
- Packaging Corp. of America (PKG)
- Ambarella (AMBA)
- Shake Shack (SHAK)
- Qualys (QLYS)

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