

JANUARY 2017

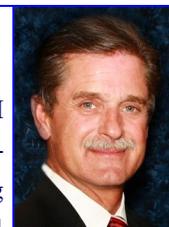
Scott's Thoughts —

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OLIVE SEZ—HAPPY NEW YEAR 2

THE LETTER THAT WAS NOT TO BE WRITTEN



Scott Husband

I was more surprised than when our current President won his second term. I am pro-business because I believe it is commerce that creates wealth which increases the nation's overall standard of living and I am all for each of us having a better life. Trump could not win, he was no one's favorite (slight exaggeration) and certainly he had no political polish though polished he was. I enjoyed his topics being discussed as they seemed to be outside what was termed "politically correct", which had become a round-about way of limiting the first amendment. George Orwell's book "1984" arrived 30 years early, while his "Animal Farm" books most famous line ("All animals are equal, but some are more equal than others") seemed to be quite timely.

I had positioned accounts for more of the same: keeping interest rate risk to a minimum (owning shorter term bonds), limited to very light stock market exposure, lots of cash and short term certificates of deposits, with a real bias of expecting inflation to reappear. Reflation is my 2017 investment expectation. Metals were 2016's best performing sector up to the election.

The day of the election, I personally placed a small, but very leveraged "bet" on a Clinton loss. Not that I thought it was going to happen, but Brexit was a near toss-up and the odds were 4 to 1, which is a good bet all the time (assuming you can make it more than once). Election night brought expected early results, and the futures markets responded with what was expected, up 250 points. When Florida and Pennsylvania were called for Trump, the futures market declined 1,000 points and the gold market ran up \$60.00. Trump was not supposed to win and the futures markets were in near panic mode. My little "bet" was 20-30 times larger by midnight Alaska time. I awoke four hours later and had lost it all. Markets move so very fast in today's electronic world and what I had thought would occur with a (very unlikely) win by Trump was a sell off of a thousand or two thousand points over a week or two week period, had in fact, occurred in four hours.

We awoke to the reality that we would go from one of the highest taxed countries in the world to maybe not. Corporate taxes were 35%, and maybe now they would be 15%. The thousands upon thousands of new and stifling (though always well intended) regulations might lessen and perhaps even be repealed. Free debate might once again be allowed without fear of a derogatory title placed on the "micro-aggressor". I will get off my horse with this, the constitution allows free speech, it says nothing about feelings being hurt because the other person just does not see things as you do. You want a safe zone, re-read Animal Farm.

The opening bell after election day represented investors voting with their money, they were betting that we had just witnessed a tidal change in the American political climate. Stocks raced upwards with banks and energy companies leading the way. Interest rates rose quickly with the ten year bond yield moving from 1.8% to 2.6% (45% higher). The twenty year treasury lost about 10% of its' value, a move equating to 4 year's income. The technology stocks fell (but have recovered quite a bit), not only did the captains of that industry support the loser, but they enjoy replacing American workers with lesser paid non-Americans. The Dollar is near parity with the Euro (we were in Italy when the US dollar was worth 62 cents in Euros). International companies have a head wind of a strong US currency affecting the value of their overseas revenues, and a tail wind of expected lower corporate taxes. Perhaps the larger benefit will be bringing home the foreign currency they have overseas (left

Scott's Thoughts (continued)

there due to heavy taxes in the US).

During the past eight years, the administration doubled the national debt. The "administration elect" certainly has promised programs that could do the same. There is some hope we can grow our way out of this debt spiral, but being objective and knowing a little history would suggest "a dollar ain't going to buy what it did yesterday". We can hope interest rates decline so that our national debt increases slower. I read just this morning.....from Grant Williams, "Things That Make You Go Hmmm" newsletter.

*"In fact, if we look at the **monthly changes in the average debt cost** of the United States, we find that, in an astounding **77% of the months between 2000 and 2016, they fell.**"*

*And thank God for THAT because, due to the Credit Crisis and the measures enacted to stifle it, the national debt grew from \$9.229 trillion at the end of 2007 to \$20 trillion on Halloween of this year-a 114% increase in just 9 years as Barack Obama added the same amount to the U.S. debt in eight years that America's 43 previous Presidents has managed to accumulate between them in the previous 232 years. HOWEVER...**Thanks to those persistently falling rates, the cost of servicing twice the amount of debt doubled increased from \$430 billion to \$432 billion.** Ta-dahhhhhhh. Behold. Magic!*

*With a 1% rise in rates (which is very close to what has happened to rates since the US presidential election), the US would be paying around \$633 billion dollars a year in interest. Not fatal, but certainly it would crimp the US budget. With a 2% rise to 4.2%, we are talking about \$831 billion dollars - or around how much was used in TARP to rescue the US economy. Finally, with a **3% rise in rates to 5.2%, or what we used to pay before the financial crisis, the interest alone would rise to over one trillion dollars per year ... in interest payments.**"*

We can grow the economy, we can default, or we can inflate. I hope for growth, and expect to inflate. Stocks should benefit, metals should fly, and longer term bonds will die a slow, slow, death. But, then again, I thought Hillary would win. Isn't it good the political season is over.....

Thank you, and some of you for over 30 years. This is my life and I appreciate the honor of being part of yours.

CHRISTMAS 2016

For many years, we have sent gifts to our clients during the holiday season. This year, we chose to donate to the Breast Cancer Detection Center in Fairbanks. A wonderful organization with a mission to increase awareness of the survivability of breast cancer and the benefits of early detection by delivering screening services and educational programs throughout the state of Alaska.



Olive sez...very excited about 2017.

ANNUAL REMINDERS

You may request Denali Capital Management's Firm Brochure and the brochure supplement at any time. If you would like to go paperless and receive Charles Schwab statements, the Denali View and DCM quarterly reports via e-mail, please contact Heather. If you do not file an extension, April 17, 2017 is the deadline to contribute to your IRA for 2016. Please contact Heather if you need deposit envelopes. Also, this is a reminder to check your credit report at: www.annualcreditreport.com.

It is time to apply for your Alaska Permanent Fund Dividend (PFD) for 2017. The deadline to apply is March 31, 2017. Filing can be done online at:

<https://www.pfd.state.ak.us>