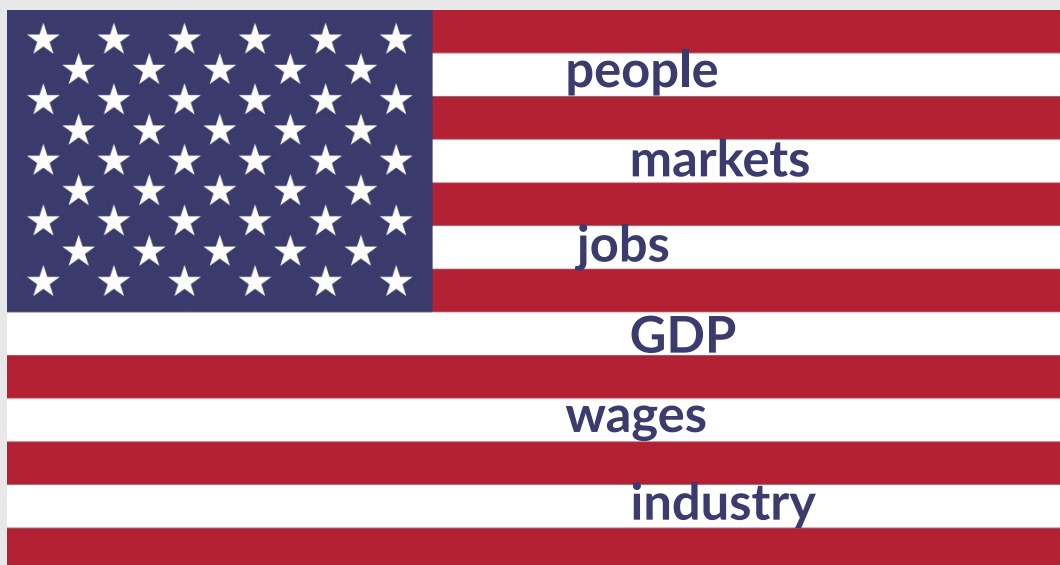


Make America



Great Again?

When it became clear that Trump would indeed win the presidency Tuesday night, financial markets responded violently as Dow Jones Industrial Average futures fell 800 points. Thursday the Dow closed at a record high, marking one of the biggest market turn-arounds since the global financial crisis. A new regime requires a new outlook and given the volatility surrounding election day we thought it important to analyze the potential economic and market effects of a Trump presidency.

Implications of a Trump Presidency

Narrowing down Trump's policy proposals to their nuclear form reveals an economic platform that we expect would support further growth in equity markets. The president-elect has proposed to:

- Cut taxes
- Reform the corporate tax code with lower rates
- Spend upwards of \$1 trillion on real infrastructure
- Simplify business regulatory measures
- Renegotiate trade deals to favor the US

The lack of policy details and the unknown eagerness of Congress to enact any of these policies leave plenty of questions unanswered, but we can point to some areas of the economy that will likely be affected.

Potential Pros

Overhauling business regulations and taxes should be supportive of economic growth. Business friendly taxes lead to higher profits which are accretive to stock prices. Looser regulations should positively influence corporate spending. A positive business landscape encourages companies to ramp up hiring which supports stronger consumer spending, a key driver of US economic growth.

Infrastructure spending and new trade negotiations are a tailwind for the industrial, construction, and materials sectors. These sectors would also benefit from Trump's plan to bring more production stateside. Energy infrastructure should also benefit from Trump's support and his pledge to finish the Keystone XL pipeline.

Renegotiating trade deals and bringing production back to the US will lead to a stronger dollar, higher interest rates, and higher inflation. Additionally, these policies promote job creation in areas which have been somewhat left behind as the stock market has increased and economic growth has floundered.

Potential Cons

Pulling the economy out of the current slow and low environment will not be easy. Lower taxes and higher government spending pave the way for longer-term deficit problems. Additionally, looser regulations and taxes may not stimulate an increase in businesses' willingness to invest.

The idea of infrastructure spending is attractive, but implementation of the idea will likely be complicated. Also, the government will increase the deficit to pay for infrastructure improvements. Large government deficits will have to be paid for eventually which means higher taxes, or less spending, or both sometime in the future.

More jobs and domestic production in blue-collar industries could lead to higher inflation. More people may be working, but overall spending power will decline. Stronger consumer spending has been the cornerstone of the current recovery and could take a hit from a decrease in spending power.

Higher inflation tends to be a tailwind for stock prices, but a negative for bond prices. Additionally, if inflation rises too quickly the Fed may have to raise rates faster than expected which would be a headwind to economic growth.

Portfolio Implications

As your investment manager, we are tasked with understanding the risks and the opportunities facing investors in the market. Following unexpected political events, such as Trump's election, many investors make investment decisions based on emotion rather than market fundamentals. At Waterloo we take a disciplined, sober approach to market analysis

and seek to understand the effects of an event and make strategic changes to our portfolios as market conditions warrant.

Though markets have stabilized following election day, we do expect massive volatility as investors realign portfolios to the new political reality. This week has seen unprecedented rotation within the markets. Prior to the election, portfolio managers were positioned for more of the same: slow economic growth coupled with bouts of deflation. Consequently, many bonds had negative or record low yields. Within the equity markets managers have been in defensive sectors and chasing yield that clients desperately seek. This has resulted in record high valuations in sectors such as consumer defensive, REITs, and the highly trusted "FANG" stocks [Facebook, Amazon, Netflix, Google] that grow fast but are richly valued. As election results poured in investors began to realize interest rates, inflation, and economic growth might go up for a change. This outlook shift caused an immediate rotation out of the "safe stuff" that has risen on the back of QE stimulus of the last 6 years and into economically or formally regulatorily challenged sectors. Additionally, long maturity low yielding bonds that are "safe" but low returning were simultaneously dumped in record quantities resulting in over \$1 trillion in global bond losses this week.

All this said, we still support a long-term investment perspective, and look past the "noise", while being watchful for opportunities to take advantage of distinct regime shifts. For example, our new neural network's statistical models have shown that institutional investors have been quick to sell large positions in bonds and have rotated into stocks. Additionally, the models show that interest rate

sensitive sectors will face headwinds as rising inflation and increasing interest rates are likely during a Trump presidency. Thus, we have used this opportunity to increase exposures to financials who benefit from a steeper yield curve and to materials & natural resources sectors that can gain from low valuations, rising inflation and potential infrastructure spending. We have also shifted fixed income exposure to uncorrelated alternative strategies for many clients.

The Waterloo Way

Our investment philosophy supports taking a level-headed approach to portfolio construction. During times of uncertainty, we think it's important to reiterate our approach to investment management.

Investment Goals and Strategy

We work together with our clients to create fully diversified and customized portfolios to grow and protect wealth over time. To accomplish this, we take time to understand our clients' goals which help us construct client specific long-term oriented portfolios. We utilize our quantitative models to monitor positions and limit exposures to assets that may be overvalued, while increasing exposures to assets our models indicate are undervalued.

Furthermore, we utilize alternative investments to take advantage of structural dislocations in asset pricing. Allocating to uncorrelated alternative strategies also serves to protect our client from unexpected market drawdowns and improves risk-adjusted returns.

Client Education

An important aspect to asset management is client education. We consider the trust you've placed in us as your advisor as an enormous responsibility and it's equally important that you understand "why we do, what we do." One of the key aspects of growing wealth over time is avoiding losses, which we feel is best done by taking a tactical allocation approach to portfolio management. This often requires investing when the markets are fearful and selling when investors are greedy. Contrast this with the anxiety investors feel when headlines, like we saw this week, dominate our social consciousness. Waiting for opportunities to arise and avoiding short-term reactions is key when building wealth. Our steadfast focus on these principles is the foundation for growing and managing your portfolios over the long-term.

Waterloo Capital Management

301 Congress Avenue, Suite 120
Austin, TX 78701
Office: (512) 693-4330
jchatmas@waterloocap.com
waterloocap.com

53 Perimeter Center East, Suite 420
Atlanta, GA 30346
Office: (678) 331-7772
tbenbow@waterloocap.com
waterloocap.com

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