

January 24, 2017

# It's The Cycle Stupid.... Not Trump!

## (Sometimes "Timing" is Everything in Life)

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**The Trump era might be much better for Main Street and not so good for Wall Street.**

**Felix Zulauf  
Zulauf Asset Management  
January 16, 2017**

The first inauguration of Barrack Obama as the 44<sup>th</sup> President of the United States took place on January 20, 2009. Lucky for Obama, this was smack near the bottom (March 2009) of the greatest bear market and financial panic since the great depression.

Yes, a little luck and great timing often are at the root of a Presidents economic and business legacy. Obama took office at exactly the perfect moment – just as the stock market and business cycle were about to reverse course and embark upon a multi year expansion. Moreover, stock valuations in 2009 were at rock bottom.

Fast forward to March 2017 and it will be eight full years since the 2009 stock market bottom. This will make it second longest bull market in modern history, according to S&P Dow Jones Indices. With minimal real life business experience and many new policies unfavorable to business growth, American stocks nonetheless tripled under the

watch of President Obama. As a result, today there is much less room for equity valuation expansion.

The reality of the situation was that President Obama, in January 2009, had a great starting point. He benefited from a dramatic tail wind working in his favour. Specifically, that meant massive quantitative easing, falling interest rates, and a central bank working in his favour.

Unfortunately, (or fortunately depending upon your political colours) for Trump, the election was likely an “inflection point”. Thus Trump, as we can see from the significant post-election rise in bond yields, will be facing some serious head winds in the form of rising interest rates and the end of significant P/E ratio expansion. For example, stocks that in 2009 traded at 12x earnings, now trade at 19.5x earnings. Trump will not have, to the same degree as Obama, this “undervaluation equity advantage” working for him. (Remember, rising interest rates at some point will compress P/E ratios and equity values).

It will be much easier for the press to lay the blame on Trump when the proverbial “shit hits the fan”, and the inevitable correction/bear market rolls around. Trump’s presidency may provide the catalyst “tweets”, but not the root cause of a market selloff.

Bottom line, “the cycle” will not be working in President Trump’s favour as it was for President Obama. Sometimes in life, it’s all about “timing” and little “luck”. Obama had the luck, Trump has the mouth.



Ben Horwood

Value Contrarian Equity Fund  
January 24, 2017

(P.S. The views contained in this letter are not an endorsement for or against a particular politician or political party. Rather, they are based on observing decades of stock market and business cycles).

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