

September 26, 2016

## Donald Trump & The Canadian Banks

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Now that I have your attention – on two matters that I know are near and dear to the hearts of most Canadian investors:

1. There is no need to sell all or part of your financial assets (stock/bonds) prior to the presidential debates tonight or the upcoming November U.S. elections.
2. I know we all love the gift that keeps on giving – Canadian bank stocks and their growing dividends, especially in light of the non-existent yields on GIC's, bonds and many fixed-income alternatives. Nonetheless, it's very important to have a diversified portfolio. A portfolio that contains more than 30% Canadian Bank stocks is not industry diversified and contains unforeseen risks. (Myth #1: a Canadian bank has never cut its dividend. Think again to National Bank in the early 1990s which cut its payout 50%).

Donald Trump has a 50/50 chance of winning the upcoming American elections. The impossible has now become the possible.

Does that mean investors should panic and sell their portfolios ahead of the supposed carnage? The idea being to sell ahead of the inevitable market sell-off, and in turn buyback the same stocks, at hopefully a much lower price. Some people think they are perhaps smart enough to time the markets, or have access to the latest high-tech crystal ball.

In times of doubt and political uncertainty, best to think what course of action the “smart money” (The John Templeton’s, Warren Buffett’s and other investor greats) would be taking under similar circumstances.

1. These investors would (from their histories) stand pat with their existing portfolio’s. However, they would be licking their chops, ready to pounce in the event of any potential knee-jerk panic sell-offs.
2. Very few can accurately time the markets on a consistent basis ... sell prior to an unknown Trump win? But sell ... and buyback when?
3. Remember that stocks, while volatile in the short-run, tend to rise over the long-run. The longer the holding period, the higher the probability that you will come out ahead. According to MorningStar, the S&P 500 has produced positive returns in approximately 95% of rolling 10 year holding periods from 1926 to 2015. For 15-year periods, the return was positive 99.8% of the time. In the stock market, the 10 year and certainly 15 year holding period is your friend. (Two ten year exceptions: 1965-1974 and 1999-2008)
4. The real surprise, in our opinion, is no longer that Donald Trump may win. The true surprise, that few are expecting, is that the financial markets may take a Donald Trump win as a big positive, creating a powerful stock market rally.

For the markets to react in a swift knee-jerk reaction – there has to be a true “surprise”. This would be a surprise which most investors haven’t yet contemplated (Brexit being a recent example).

5. If you’re easily rattled by market volatility, it may help to focus on the dividend income your stocks produce instead of watching the daily fluctuations in market prices.

If you hold superior stocks, your dividend income should rise steadily, regardless of whether the market goes up, down or sideways. Holding some cash can also be comforting during falling markets. Presently, the Value Contrarian Fund has approximately 14% cash levels.

On a final note, 2016 is the first time within the last five years that the commodity laden CDN market is beating the broad U.S. stock market indexes. During the later stages of the economic/business cycle the TSX often outperforms. Another .25 basis point rise in U.S. interest rates is not enough to derail the stock market. While a Trump win, may delay a rate hike further down the road.

The only thing certain about the market is uncertainty.

Shana Tova/ Happy New Year to all our Jewish clients.

Ben Horwood

Manager Value Contrarian Fund  
September 26, 2016

**Value Contrarian Fund: August 31/2016 – YTD return: 7.0%**

**Next purchase date Value Contrarian Equity Fund:** September 30, 2016 (call today: 514-398-0808). Your comments are always welcome via e-mail ([benh@valuecontrarian.com](mailto:benh@valuecontrarian.com)) or LinkedIn. Please note: The timing of Ben's market comments will only be sent when something of value should be shared.