



YOSEMITE CAPITAL MANAGEMENT

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“The best argument against democracy is a five minute conversation with the average voter.”

– Winston Churchill

Successful investors NEVER let their politics get in the way of their investing plan. Too many investors overestimate the role of politics in their investment plan, on the financial markets, and in the economy. The truth is that in the short term of a couple of years, politicians and politics have very little impact on the economy. Indeed, ***the economy usually determines the outcome of an election as opposed to an election determining the outcome of the economy.*** Therefore, who is in the White House or which political party controls the Senate or the House of Representatives cannot substantially affect the financial markets in the near term and certainly should not affect one’s portfolio decisions. ***Those awaiting the outcome of an election to make investment decisions are potentially making a big mistake.*** Politics is primarily about the next election, while proper investing is about the long term.

All else equal, ***the economy and the financial markets do not depend on proper Executive Branch leadership for positive growth,*** even though we certainly prefer they be of more help than hindrance.

But ***this is what makes the United States of America a strong country.*** Only weak countries or weak governing philosophies depend on “the right people” to lead them. The nation moves on regardless of, often in spite of, and not because of, who our elected officials are. The United States of America does not have rulers, does not rely on the political class to be its leaders, and does not use government to run its society (including the economy and the financial markets). This is the kind of nation in which to invest. Investing in a country is investing in its people and its institutions and not in its politicians.

We want to make it absolutely clear that none of this is to suggest that politics is unimportant. To the contrary, ***government has a VITAL role to play in society***. It is crucial that citizens participate in the affairs of government at the federal, state, and local levels, at the very least by voting in every election, because the policies, laws, regulations, decisions, and appointees can and do affect the country and the world in the longer term.

The rights we all enjoy as citizens are ultimately what really make our country strong. The fact that anyone can publicly express an opinion about a current office holder and challenger in a negative or positive light is something that most human beings throughout history never could safely do and too many in our own time around the world still can't. We are thankful for this ability and grateful to those who sacrifice so much to maintain all of our inalienable rights, knowing full well losses of rights can be insidious and usually difficult to reclaim when gone.

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For those who want to better prepare themselves for the result (good or bad depending on their preference), we offer an analysis (not a prediction) of what the current data is indicating about the outcome of the presidential election.

Remember that the United States does not elect its president in a national election decided by a popular vote of the people. Instead, the country has 51 state elections, as for this purpose the District of Columbia is considered as a state. From these 51 elections (with the additional wrinkle that Maine and Nebraska further allocate their results by congressional district), the president is chosen by a vote of the Electoral College where at least 270 votes out of 538 are required to win. (The process of the Electoral College is why national polls about voting intentions are irrelevant for trying to determine the ultimate outcome.) For more information, see the National Archives and Records Administration (NARA) at <http://www.archives.gov/federal-register/electoral-college/about.html>.

The data indicates there are 46 states where the outcomes are practically guaranteed to one candidate or the other.

The data also shows there are five swing states plus one congressional district each in Maine and Nebraska which by definition could go to either way. Those jurisdictions and their 73 Electoral College votes are Florida (29), Ohio (18), North Carolina (15), Nevada (6), New Hampshire (4), and Maine-02 (1).

A tally of the Electoral College votes excluding the swing states reveals 268 for Mrs. Clinton and 185 for Mr. Trump with a few days before the election. This means the data is indicating that ***MRS. CLINTON HAS A COMMANDING LEAD AND IS LIKELY TO WIN THE ELECTION.*** If these numbers hold, she would need to win only one of the five swing states or both of the specified congressional districts to prevail.

This lead includes Pennsylvania (20), Michigan (16), and Colorado (9), states considered “Leaning” by the political analysts. If she loses any of those states, the dynamic shifts and the outcome could become much closer, depending on the results from the swing states, or even go the other way. Thus the results of these states are important to the Clinton campaign and the loss of any of them means winning at least one of the swing states becomes critical.

Trailing by a significant amount, to become President Mr. Trump would need to win all five swing states plus Maine-02 (1) as well as hold on to Arizona (11), Iowa (6), and Nebraska-02 (1) in his “Leaning” column. If this happens he would win by the narrowest possible margin of 270 to 268. Thus all of these jurisdictions are critical for the Trump campaign as the loss of any swing state means game over, unless offset by upsets in any of the three aforementioned Democratic Leaning states.

Among the five swing states, the data currently suggests that New Hampshire (4) is very slightly leaning toward Mrs. Clinton, while Ohio (18) is just as very slightly leaning toward Mr. Trump. At this point, Florida (29), North Carolina (15), and Nevada (6) are statistical dead heats. (Will Florida have yet another voting controversy?) All told, the data is currently suggesting Mrs. Clinton will garner between 272 and 341 Electoral College votes.

For a parlor game, we will guess 293, with New Hampshire (4), Nevada (6), and North Carolina (15) falling to the Democrats and Florida (29), Maine-02 (1), and Ohio (18) falling to the Republicans.

Of course, this analysis assumes nothing too dramatic happens before the election. But given the nature of this campaign, that assumption could be treacherous.

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The Senate, currently controlled by the Republicans 54 – 46 (the number for the Democrats include 2 Independents who caucus with them), could be controlled by the Democrats after the election.

The data indicates that after accounting for those not running for election this year, those Solidly in one camp or another, and those Likely in one camp or another, each party will have 47 Senators. This includes 2 Republican seats (Illinois and Wisconsin) that are Likely to be won by Democrats.

This leaves 6 seats that are tightly contested and could go either way. Five of those (Pennsylvania, New Hampshire, Indiana, Missouri, and North Carolina) are currently held by Republicans, while the other (Nevada) is currently held by a Democrat.

The data is currently suggesting the races in Pennsylvania and Nevada are very slightly leaning to the Democrats while the race in North Carolina is very slightly leaning to the Republicans. But these leanings cannot be assured. Regardless, the races in Indiana, New Hampshire, and Missouri are statistical dead heats.

Assuming these 6 races will be evenly split provides a 50-50 tie, in which case any ties are broken by the Vice President, which the analysis above suggests will be a Democrat.

Assuming a Democrat in the White House, for the Republicans to maintain control with a 51-49 margin they would need to win 4 of the 6 contested races.

For a parlor game, we will hazard a guess that the Democrats will control the Senate 51 to 49 by winning the seats in Pennsylvania, Nevada, New Hampshire, and Indiana, while the Republicans win the seats in Missouri and North Carolina.

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So what does all this mean for the economy and the financial markets? Probably not much. Because Republicans will still control the House of Representatives, gridlock will likely remain. While some people don't like that, the fact is *the Founding Fathers designed the system with checks and balances such that gridlock is supposed to be the norm*. No change in the party occupying the White House could suggest a broad continuation of policy, which could mean the markets will have to deal with less uncertainty, all else equal. Thus, the economy and financial markets could end up developing in line with the underlying fundamentals instead of political doings. And whether those fundamentals are positive or negative may have very little to do with politics and the election outcome because much of what affects the economy and financial markets is outside the realm of the political class. *Politics is not the driver of everything in life!*

Some argue the recent volatility in the stock market can be attributed to uncertainty about the election. Maybe, maybe not. The data for some time has indicated a win for the Democrats to keep the White House and control the Senate, so theoretically this is factored into market prices. One hypothesis is that as the polls suggested the presidential race has tightened and the odds of Mr. Trump winning increased, this change could have caused prices to be reevaluated downward to account for significant political disruption. But we suggest that whatever is in the news is only one of many, many, many factors that affect security prices. Just because something happened one day, whether it's a political development or economic report or a corporate event, and the markets moved simultaneously does not necessarily mean one caused the other. Recent market volatility could very well be due to upcoming changes in the global economy, future corporate earnings expectations being revised, inflation expectations changing,

portfolio repositioning, human irrationality, etc., much of which may not be recognized in real time. ***The fact is that market volatility could simply be a normal circumstance simply because that is what markets do – it's NORMAL for the stock market to decline about 5% every three or four months on average no matter what is in the news.***

We encourage all not be consumed by what the financial markets are doing or might do, or fret about who will or won't be elected, or worry excessively about anything in the news. We have freedoms, life is good, and the future is bright.

Happy voting!

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