CREDO
WEALTH

President Donald Trump - *the investment case*

Deon Gouws - CIO, Credo Wealth - 09 November 2016

Eleven years ago, acclaimed English film director and restaurant critic, Michael Winner, published a book entitled The Fat Pig Diet. Asked about this largely autobiographical work in an interview, Winner confessed that the full extent of his dietary advice could be summarised in two words, namely "EAT LESS"… but that would obviously not amount to much of a book. So he proceeded to write some 230 pages on the same topic.

I am reminded of this anecdote when faced with the question as to whether investors should care about politics. In my opinion, the short answer is most certainly a resounding "NO"… but that would obviously not amount to much of an article. So let me proceed and write a few hundred more words on the topic. ⏩

In support of the notion that politics generally matters less to investments than what many people fear, and before focusing on the US presidential election, there is probably no better example than the Brexit referendum in the UK earlier this year.

In discussing Brexit, let me just reiterate: much like David Cameron, the rest of the UK government and most analysts and commentators, we did not expect the outcome of the referendum. Accordingly, we did not prepare specifically for this eventuality in terms of positioning clients' portfolios. To put this in perspective: it is simply consistent with an investment philosophy in terms of which we prefer to ignore most of the noise that forms part of the daily news flow and rather focus on real business fundamentals when deploying investable funds.

Personally, I will always believe that it makes more sense to take a longer term view (focusing on potential holding periods of 5-10 years, if not more) by investing in good quality businesses that one understands and where you are able to gain exposure at reasonable valuations.

Very little if any of this is likely to be affected materially by the outcome of any election or referendum (that is if one ignores the shorter term noise): businesses of high quality should continue to trade well, grow their profits and potentially enjoy multiple expansion over time.

This principle certainly appears to have been borne out by the post-Brexit stock market action. On Brexit day itself, the FTSE100 was down nearly 10% from its previous close at one stage; a few weeks later, it had not only made up all these losses, but it was in fact more than 10% higher than its pre-Brexit level and within touching distance of all-time highs. It is of course true that at least part of this recovery related to the weakness of sterling (and the preponderance of exporters within the FTSE100), but I would suggest that a reversal in the perception of political risk was a much bigger factor; this point is also well illustrated by the fact that the FTSE250 (which contains far fewer exporters) recovered equally quickly and reached new highs in the weeks after the Brexit vote.

A couple of months after the UK referendum, portfolio managers in the northern hemisphere returned to their desks, fresh from a relaxing summer holiday, only to see volatility return to the markets. At the beginning of September, I received an email from a well-known strategist, explaining the market action over the July-August period as follows: "This year's surprise summer rally was driven by four suspect factors: economic data, expectations of dovish monetary policy, momentum, and optimism over political risk". The last point (relating specifically to politics) was further elucidated in the note, as follows: "bullish market behavior created the impression that political risks from the US presidential election and the forthcoming votes in Italy, the Netherlands, France and Germany were all over-done".

My own slightly sceptical response to this kind of commentary is that it was simply an example of what Nassim Taleb describes as the narrative fallacy: it addresses our limited ability to look at sequences of facts without weaving an explanation into them (i.e. forcing the facts to fit some made-up narrative of what supposedly happened).

The truth is that financial markets gyrate due to an unknowable ▸▸

number of reasons. Political risk is just one of them... and no doubt, commentators soon moved on from Brexit and fixated on the US presidential election more than ever before.

Investment professionals had of course been concerned for some time over who would end up being the leader of the free world, following an election between the two worst candidates in history (as some have described it).

Warren Buffett was asked about this at the time of the Berkshire Hathaway AGM in May this year. In an apparent swipe at both candidates, Buffett replied: "Your children are going to live better than you, even if we elect three bad presidents in a row". Put differently: one did not need to worry about who would eventually become president: the US (and thus the world – including investment markets) will be absolutely fine in the end.

Another quote which is often ascribed to Buffett (even though Peter Lynch said it before him), is this one: "Go for a business that any idiot can run – because sooner or later any idiot probably is going to be running it."

In my view, this probably holds true at a country level as well: even if you do not approve of Donald Trump as US president, it should not deter you from investing in some of the great businesses emanating from that country (or elsewhere around the globe, for that matter). Regardless of the election result, I simply don't believe that it will be the end of the world (just like it didn't take very long for Brexit to start looking like a bit of a damp squib).

To be sure, there is in fact a plausible argument in terms of which Trump's presidency is likely to be better for the economy and markets compared to what the equivalent impact of a Clinton presidency might have been. The reason for this is simple: if you ignore the politically incorrect statements, the populist noises and the plans to build a wall around Mexico, the core Republican policies are always more stimulatory and business friendly than those of the Democrats. Nothing that either Trump or Clinton have said over the past few months contradicts this basic principle: it is common cause for example that Hilary Clinton would regulate more and tax more and use the proceeds to implement more generous social policies.

Donald Trump's term as US president is likely to turn out to be similar to what happens following practically any election: he will no doubt end up being worse than ever promised, but probably a lot better than what most of the naysayers fear.

As always, astute investors will look to use excessive market weakness as a buying opportunity. In all likelihood, they will profit from doing so over time. ■

Important Notice: *The view expressed in this article is provided for general information only and is not intended to amount to advice or a personal recommendation and should not be relied on. You should not take any action based on it without taking specific advice from your investment adviser. To the extent permitted under applicable law or regulation, Credo excludes all liability to you or any third parties for any loss or damage caused by reliance on any information contained in this article.*