Don’t Dump Your Long-Term Investment Plan Over Trump’s Victory

Description

Will the Trump rally continue until the president-elect is sworn in in January? If nothing else, the unexpected result in the U.S. election was more proof–if it were ever needed–that it’s extremely difficult to predict short-term market moves because of potentially cataclysmic macro-economic developments, like Brexit, the Trump victory, and, no doubt, similar disruptions that may occur in their wake in Europe and elsewhere.

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Various bearish prognosticators who got the election result right (like currency guru James Rickards) nevertheless were wrong in also predicting a Trump-inspired market crash. While this did briefly seem possible in the wee hours of election night, we all know that once the market opened on November 9, Wall Street decided Trump’s victory was bullish after all.

Most of the early market comments were along the lines of staying with the program and not making major portfolio adjustments. For example, Vanguard chief economist Roger Aliga-Diaz urged investors to “Stay focused, keep perspective, and above all, don’t make drastic changes to your portfolio.”

He reminded investors that volatility increases after every election, especially in years where the party in the presidency changes. “Sooner or later, markets always go back to fundamentals. The U.S. economy in particular has shown resilience compared to a much weaker global economic environment. We are optimistic about the long term.”

Canadian robo-advisor WealthSimple had a similar message: “If you’ve got your money invested in a diversified portfolio … [the election result] shouldn’t make much of a difference. … Take a deep breath! … Good things happen, historically, when you stay the course.”

Most of this commentary was issued in an equity context, but what about fixed income? The early negative action in the bond market strongly suggests that–finally!–the +30-year bond market bull run is just about over. Trump is seen as a positive for U.S. economic growth–free trade be damned!– and this, in turn, is perceived as inflationary.

That’s why some investors have started to pile into TIPS (Treasury Inflation-Protected Securities); their Canadian equivalents are called Real Return Bonds. ETFs exist for either security. Interest rates have already started to move up post-election, and it certainly appears that the looming inflation will mean the U.S. Federal Reserve will start hiking rates as early as December.

“With rates finally poised to rise combined with likely expansionary economic policy in the U.S., I don’t want to lock in low rates for five years so a two-year GIC ladder using when possible six-month intervals is an alternative,” says fee-for-service financial planner Fred Kirby of Armstrong, B.C.-based Dimensional Investment Planning Inc. “Make sure the GICs qualify for CDIC coverage.”

While those in broadly diversified portfolios that reflect all economic sectors need not fret overly about sector rotation, it certainly appears that U.S. energy and financial stocks are now in favour, as well as industrials and defence stocks. However, I’m not sure Canadian investors need to go overboard on the U.S. versions of those stocks; the Canadian market has significant exposure to financials through the ubiquitous big banks (and life insurance companies) as well as energy stocks.

There’s little to be gained by adding currency risk to gain exposure to the U.S. equivalents of those stocks, but it might make sense to add exposure to U.S. sector ETFs covering defence stocks and industrials. Certainly, Trump should be bullish for Canadian pipeline stocks like **Enbridge** and **TransCanada** pipelines.

While the early market response was negative for the big U.S. tech stocks like **Apple**, a downdraft in names like **Google, Facebook** and **Netflix** might be the proverbial buying opportunity for Canadian investors who lack equivalent stocks in the domestic market.

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In a guest blog on my website, Graham Bodel of Vancouver-based Chalten Fee-Only Advisors Limited pointed out that the election really shouldn’t have changed any investor’s long-term investment goals. They should ignore the noise, stick to their long-term plans, ride through any short-term volatility, rebalance if necessary, and “observe and reflect.”

Also on the site, Tyler Mordy–president and chief investment officer of Forstrong Global Asset Management–made the case for global diversification with exposure to longer-running megatrends (via ETFs) beyond the U.S. stock market (which it had already begun to trim positions in). “For example, commodities are stuck in a grinding sideways market. Politics cannot change that meaningfully.”

Forstrong also favours countries that are enlarging, not shrinking, their economic ecosystem. “Asia, including China and India, is well positioned not only to continue growing its middle classes but also to enhance regional trade linkage,” Mordy wrote, “Global exposures will be key to successful client outcomes.”

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jchevreau

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