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How to invest in the age of Trump

By Michael L. Diamond

(Photo: European Press Photo Agency.)

An hour after the stock market closed on Dec. 22, President-elect Donald J. Trump tweeted a warning to Lockheed Martin Corp. that its F-35 was too expensive and he would turn to its competitor, Boeing, to study his options — a move that hurt Lockheed's stock the next morning.

But for all of the damage it did, Lockheed shareholders still pocketed a 15 percent gain in their investment in 2016. And the episode amounted to a lesson.

"Don't overreact to the noise," said Douglas Roberts, chief investment strategist for ChannelCapitalResearch.com in Shrewsbury, said.

If the campaign and weeks after the election are a sign, Trump will usher in a noisy era in which a spontaneous Tweet can send stocks rising or falling. It marks a new challenge for investors trying to figure out where to place their money.

It has left them trying to discern bluster and show business from economics and policy. Trump's Twitter feed can blur the lines. Three hours after his Lockheed Martin tweet, he took aim at A-list Hollywood stars who spurned him for his inauguration.

Investment advisers, however, are spending more time studying the impact of his trade policy and rising interest rates than his Twitter account.

"It’s probably fair to say you don't make (investment) decisions based on a tweet," said Lori Sackler, a senior vice president for Morgan Stanley in Paramus.

For investors, 2016 had no shortage of whiplash. The Standard & Poor's 500 index fell more than 3 percent on June 24 after British voters unexpectedly decided to leave the European Union. But it recouped its loss within two weeks. Investors then braced for a massive sell-off after Trump's upset victory. The market rallied instead.

The final results for the year: The Dow Jones industrial average closed at 19,672 up 13.4 percent. The S&P 500 closed at 2,239, up 9.5 percent. And Nasdaq closed at 5,383, up 7.5 percent.

But the days when presidents carefully crafted their message, aware that a stray word could disrupt global markets appear to be suspended. Trump has sent thousands of tweets that have been instantly read, dissected and retweeted. Some, in which he settles personal scores, are benign. Others, in which he lashes out at China, could be more disruptive to the market, experts say.

After all, the stock market has always swung on fear and greed. Which makes for a potentially volatile time ahead.

"The fact we have a president-elect that has discussion with the American public on Twitter is really different," said Frank Corrado, a certified financial planner with Blue Blaze Financial Advisors in Red Bank. "When you have someone who's basically tweeting and media is covering it 24-7, that fuels fear and greed. It's in your face 24-7. In the past, you’d never know."

Jim Mullaney, 48, lives in Little Silver with his wife, Tara, and his two children, Maggie, 14, and James, 8. He was a currency trader on Wall Street for 20 years, but left his job and became a plumber so that he could spend more time with his family. These days, he invests for his children's college education and retirement.

He has lived through different administrations, terrorist attacks, recession and war. But he has always stuck with his plan, buying a little stock at a time. And he plans to stay with his strategy during the Trump years.

"Really the noise does not affect me," Mullaney said. "I really don't base my decisions on the news, what you see on CNN, CNBC, the financial services. I have a plan in place and try to stick with it."

What should investors do? Here are 5 things:

1. Stick with what you know.

Financial advisers continue to urge their clients to stick with their long-term plan. Have a diversified portfolio that is in line with your tolerance for risk. Don't try to guess when the market will rise or fall. And don't panic during big sell-offs, particularly if you have 20 or 30 years before you need the money.

"For a Main Street investor you can't respond to the gyrations of the market," said John Longo, a professor of finance and economics at Rutgers University. "You're never going to be as quick as the experts. You've got to go back to the basics."

OceanFirst Financial Corp. was among the bank stocks that soared after the Nov. 8 election. *(Photo: Asbury Park Press file photo.)*

2. Focus on sectors that could win or lose.

The market's year-end rally was a sign that businesses and consumers were betting that a Trump administration - with lower taxes and less regulation - could spark faster economic growth. But not all sectors were equal.

Banks, for example, have surged on the prospects that rising interest rates and less regulation will help them make bigger profits. OceanFirst Financial Corp. saw its stock rise 48 percent in 2016. Health care stocks have slipped on the prospect that Trump will repeal the Patient Protection and Affordable Care Act. Johnson and Johnson has fallen 1.4 percent since Election Day.

"I think there’s going to be some winners and losers, and the environment is going to be different than the last four years," said Robert Giunco Jr., vice president of George McKelvey Co., a Sea Girt investment company. "The trick is trying to figure out what’s going to do well."

3. Prepare for rising interest rates.

Interest rates, which have been rock-bottom since the housing bubble collapsed, are on the upswing.

Why? The U.S. economy rose a strong 3.5 percent during the third quarter. The Federal Reserve Board at its December meeting voted to increase interest rates that affect short-term loans. And Wall Street thinks the economy will pick up in 2017.

Interest rates have recently jumped. *(Photo: Getty images)*

For businesses and consumers, the higher interest rates will make it more expensive to borrow money, even though they remain at historic lows. For investors, it means bonds they might have in their portfolio are worth less since the government and companies are selling new bonds that offer higher interest rates.

Higher interest rates raises another option: Bank CDs. But banks have yet to respond with higher rates, said Keith Gumbinger, vice president of HSH.com, a Riverdale-based research group that tracks interest rates.

"With banks still flush with cash, there's not much need for them to raise interest rates on CDs and deposits," Gumbinger said.

4. Prepare for protectionism.

Trump during his campaign called on the U.S. to build a wall on the Mexico border, withdraw from the Trans-Pacific Partnership and name China as a currency manipulator. But it isn't clear if he will follow through. Republicans, in control of Congress, have traditionally supported free trade policies.

Trump's proposals have caused the dollar to gain strength, making it more expensive for exporters to sell their products overseas. For now, investors are buying stock in smaller companies that have domestic operations. The Russell 2000 index, made up of smaller companies, is up more than 13 percent since the Nov. 8 election. By comparison, the Dow Jones industrial average, which includes bigger companies, is up about 8 percent.

"It's important to pause a bit," Sackler of Morgan Stanley said. "We really don’t know what a Trump presidency is going to look like."

5. Invest in noise-cancelling headphones.

The Trump era comes as information travels through Twitter at light speed. Some if it is true. Some of it isn't. Some of it is timely. Some of it is outdated.

But a week after Trump tweeted about Lockheed Martin's F-35 aircraft, the U.S. Navy awarded Lockheed $19.3 million to develop a training program to support the F-35.

"Ultimately, you have to really go with the big macro trends and avoid the noise and really look at the news," Roberts from ChannelCapitalResearch.com, said. "What things are really significant in terms of what’s going on? The Trump administration is probably going to have a lot more noise than usual. Look, really, at concrete actions. You’re going to have to be grounded in the Trump era."

Michael L. Diamond; 732-643-4038; mdiamond@gannettnj.com