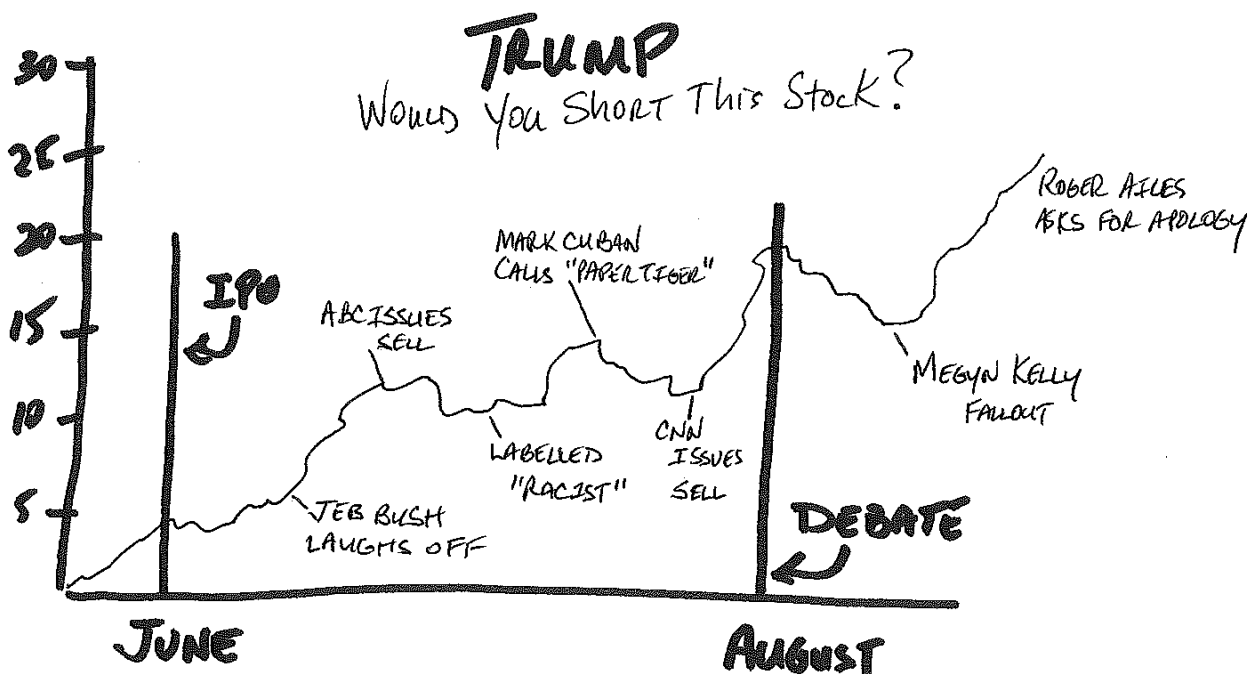




## DONALD TRUMP IS UNDEROWNED

It's often been said that the most dangerous words in the investment business are "it's different this time." To be sure, few good things happen after uttering those words, but I've found more immediate pain meted out by the markets when I say "the market is wrong." One would imagine such thoughts sometimes occur to the cottage industry of political punditry, but if one looks at the phenomenon that has become Donald Trump's bid for the Presidency, it seems few see the irony. If Donald Trump were a stock (need you ask what the symbol would be?) it would be hitting new highs despite a series, maybe even as a result, of analyst downgrades and downward earnings revisions. Since Trump's speech announcing his candidacy (perhaps one of the most interesting if not the most hilarious political speeches of all time), a series of political pundits have continued to write his political obituary, always after the latest shocking thing he has to say. Never has anyone in modern political life been so insistent on sticking his thumb into the eyes of political correctness and not been destroyed by it. As a result, nearly three months after the IPO, TRUMP is hitting new highs, large institutional investors are underweight in their positioning, and the shorts are finding it hard to borrow the stock. In essence, all the "experts" are saying the "market" is wrong, with predictable results.



My continued skepticism of pundits and other expensive experts (myself included!) came into clearer focus for me this summer because I yielded to temptation and accepted invitations to fundraisers for two would-be Presidential candidates. Yes the silly season of the election process has started, even for Republicans in Manhattan. On consecutive days, I attended events for Rick Perry and Mike Huckabee. I found both to be likeable enough fellows. What was surprising however was not what they had to say, it was the reaction of the City's conservative political commentariat to their respective candidacies. Perhaps it comes with the territory with the fourth estate but their private comments revealed a shockingly depressing level of cynicism and an utter lack of respect for "the man in the arena." Ultimately, it seemed, they were dismayed that both candidates would be unable to check off every box on the checklist of conservative policy orthodoxy. The subject of Donald Trump as a viable candidate was seen as so absurd as to not even be discussed. "He's not even a Republican!" they hissed, without acknowledging for a moment that this political amateur was beating them at their own game by every conceivable objective measure. Woe is the person that fails to recognize the genius of the elite, conservative and liberal alike.

In my own bow to political correctness, let me say that this essay is no endorsement of Donald Trump as a candidate or some of the outrageous things he sometimes says. I'm simply seeing his success thus far as another example of being able to make outsized gains with variant perceptions and non-consensus views. While there is a market and economic parallel, there is a market and economic implication as well. As recent market action put more clearly into focus over the past week, people, average people, are starting to wonder what has really been meant by the term "free trade." Although it may be the most efficient way to allocate resources in its purest form, free trade is never politically popular. But what people have wondered with China's ascendancy is whether a country of that size can decide to peg its currency to the dollar and not act, *prima facie*, in an anti-competitive fashion. Sure, it's been great for big businesses with political influence, but what about the rest of us? Has the ability to buy everything from tube socks to flat-panel screens at near cost been worth it for the country as a whole? We're optimistic about the market in the intermediate term – the risk-reward for the S&P looks exceedingly attractive and we believe a recession is unlikely for another year or two. (See page 4.) It is thus hard for us to foresee a long-lasting bear market. That being said, the events of the last week would suggest that either such unhappy occurrence would redound positively on the candidacy of The Donald, the only candidate in both political parties that has been consistent in his criticism of trade agreements that favor big businesses and those with political influence at the expense of everyone else.

His wealth (does it really make a difference if it's \$3 billion or \$12 billion?) gives him a certain flexibility other candidates can't replicate. His other great virtue, and an

underappreciated one by the literati at that it seems to me, is that the man is genuinely funny. Of all the books I've read, I can only remember three so humorous that tears of laughter scalded my face – Frederick Exley's *A Fan's Notes*, Anthony Bourdain's *Kitchen Confidential*, and Rick Reilly's *Who's Your Caddy?* Reilly's literary device was to carry the bag for a variety of tour pros and celebrities and devote a chapter to each. His experiences looping for Deepak Chopra and Donald Trump are wet-your-pants funny. Chopra, despite his quest for inner peace, would utter, often invent, curse words that would make Tony Montana blush with every wayward shot. The Donald was the apotheosis of every man's (well perhaps every 15-year old boy's) dream. Reilly wrote, in a chapter entitled The Search for True Trumpaliciousness:

*You do not interview Trump. You just try to be in the Doppler radar when his tornado blows by and sucks you in. You needn't even ask a question. Trump will take over from here. Your job is to simply try to keep your hat on and your Bic working. At the end of a 12-hour day, you will be spit out of a black stretch limo on a Manhattan street corner, unsure of what you've seen, your notes scattered, your mind severely Trumped. So you try to piece it together. Was it real? Any of it? So many lies. So many truths. So much bullshit. So much beauty. It all rolls into one colossal Trumpalooza.*

In my career I've been tempted to try to short stocks that have many of the same characteristics. It feels right, even sensible. Unfortunately, it's also often very expensive.

*Jason DeSena Trennert*

## MARKET ALMOST FEELS CHEAP

(From *Investment Strategy Report*, 8/25/15)

The sell-off seems to have taken on a life of its own now. First Call pegs S&P 500 2015 operating earnings at \$118.79. Strategas is estimating them at \$122.50. At some level, valuation will matter. Given the historical relationship between inflation, interest rates, and earnings multiples, we may be approaching that point.

### P/E Multiples Implied by Various Models

Strategas P/E Model ( <i>w/ interest rates &amp; CPI</i> )	21.1x
Strategas P/E Model, <i>Assuming 4% 10Yr Treasury</i>	20.1x
Fed Model ( <i>bond value for stock</i> )	46.5x
Rule of 20 ( <i>20 - Inflation Rate</i> )	19.8x
Strategas Historical Multiple Trend ( <i>12M Fwd</i> )	18.6x
<i>Average</i>	25.2x
<i>Actual TTM P/E (Based on First Call)</i>	<b>16.7x</b>

### First Call S&P 500 Earnings

TTM	\$119.31
2014	\$118.78
2015 Est.	\$118.79
2016 Est.	\$132.14

### S&P FAIR VALUE

#### VARIOUS MULTIPLES & EARNINGS

	\$115.00	\$117.50	\$120.00	\$122.50	\$125.00	\$127.50	\$130.00
<b>14x</b>	1,610	1,645	1,680	1,715	1,750	1,785	1,820
<b>15x</b>	1,725	1,763	1,800	1,838	1,875	1,913	1,950
<b>16x</b>	1,840	1,880	1,920	1,960	2,000	2,040	2,080
<b>17x</b>	1,955	1,998	2,040	2,083	2,125	2,168	2,210
<b>18x</b>	2,070	2,115	2,160	2,205	2,250	2,295	2,340