BH | *Beech Hill Advisors*

December 2016

Dear Clients,

The final quarter of 2016 provided strong gains for US domestic equity indexes with the S&P 500 rising 9.5% for the year. The quarter began weakly, declining approximately 4% until shortly before the US presidential election then rebounding smartly, up approximately 7.5%, adding to gains for the year. Donald Trump's US presidential victory and pledges of pro-growth policies is looking to be transformative. It was commonly believed a Trump victory, although unlikely, would rout the markets by 10%. In the early a.m. hours of election night, as Trump began to amass the states necessary for victory, equity futures declined in excess of 5%. What looked to become a crash on the following trading day reversed into a 1% gain. Markets continued their momentum into year end with the groups benefiting from assumed Trump policy initiatives. Financials, Industrials and Energy were the leading gainers.

As the most divisive election we have ever witnessed in the US, we believe that the reality will bring more moderation and hopefully reduce the vitriol observed on social and traditional media platforms. As with most things political, there will be compromise and deal making as actual policy measures move to a more centrist position. As we review the Trump agenda, we believe the most realistic and achievable campaign pledges will revolve around tax reform (in actuality tax cuts) on both the corporate and personal level. These are the most palatable and universally supported measures that provide instant good will and political capital to those deemed responsible for such largesse. Regulatory reform should also prove to be popular and readily enacted executive legislation. This will be an obvious welcome relief to business owners and corporate executives alike and will stimulate investment and economic expansion. Other more difficult measures, such as industrial and infrastructure investment, will require more time and political wrangling to determine what to do, how to fund, where to execute and the obvious infighting to receive the lion's share of the benefit to each politician's home district. Although infrastructure spending is of obvious necessity and was supported by both party platforms, it does not provide the instant boost of a tax cut and is often executed long after the responsible leaders have left office. We believe these projects will happen over a longer time frame and to a much lesser extent than the original projections made during the campaign.

If animal spirits have been unleashed as a result of more favorable tax and regulatory policies, portfolios should be positioned to benefit from the refreshed fiscal stimulus. As investment advisors we make decisions in an apolitical manner and we are constantly adjusting portfolios as political and economic circumstances dictate. As per our previous letters, we believe we are now in a more normalized economic growth market with revenue and earnings growth weighing more heavily on price multiples rather than simple earnings stability and yield. Equity markets have accepted the forthcoming increase in interest rates and prospered in spite of the 10-year US Treasury yield increasing almost a full point to 2.5%. Aforementioned policy initiatives only reinforce our strategic view. We continue to reposition portfolios accordingly with additions in the Financial, Industrial and Energy sectors, sales in the more interest rate sensitive REIT and Preferred segments and trims in the Healthcare and Consumer Staples groups. Tactically, we do not believe the current rally will continue and we believe there will be opportunistic pullbacks to continue to add to leading market segments with a positive skew towards continued economic growth.

Wishing all a Happy and Prosperous New Year!

Best regards,
Beech Hill Advisors