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Economic and Market Commentary

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Liar, crook, molester, bully: You'd think I'm sharing these less than complimentary sobriquets with you to describe some of the discourse that we've been subjected to this presidential campaign season. Well, you're wrong. These descriptions and worse have come from the lips of prior presidential candidates, many of whom went on to be President.

Over the past three or four months, most client meetings have included the question what do I think will happen to the markets and the economy depending on which candidate is elected. Now ordinarily, we leave politics out of the conference room, but this election season (at least for a good part of it), we are seeing both major candidates with higher disapproval ratings than perhaps any other time in our country's history. With that in mind, I thought it would be both enlightening as well as entertaining to recount for you a few of the nastier campaigns in American history when the less popular candidates were elected President and how the country later fared under their administration. Let's get started.

Let's Start At The Very Beginning; It's a Very Good Place To Start.

There's nothing new about mudslinging as an oft resorted to tactic in American politics. The capability of going snarky must run in the DNA of all those born to seek elected office. When the founding fathers wrote the United States Constitution, they set it up in a manner, very simplistically speaking, where the number one vote recipient became President, and the number two vote getter became their Vice President. So now the year is 1800. John Adams is President (he was originally George Washington's Vice President) and Thomas Jefferson is his Vice President. One's a staunch Federalist, Adams, who believes in a British style system, in essence with Congress serving as a counterbalance to the presidency with a strong central government and a National Bank. The other, Jefferson, a "Republican-Democrat" supported an agrarian society, weak central government and strong states' rights. Parenthetically, Aaron Burr was also running on the same ticket as Jefferson.

Back then, the states set their own election day, ranging from late April to late October. So, like today, Americans were subjected to month after month of name-calling and slander. Jefferson's hired publicists called Adams, "a hideous hermaphroditic character which has neither the force and firmness of a man nor the gentleness and sensibility of a woman." Never one to be outdone,

Adams' people asked the country, "Are you prepared to see your dwellings in flames...female chastity violated (accusing Jefferson of being a groper, I guess) with children writhing on a pike?" Now those are pretty strong words on both sides.

Now remember, the framers of our Constitution recognized that some states had a much larger population than others. They formed the Electoral College so that each state would have an important say in an election no matter how small their population was.

Finally, after months and months of outrageous accusations, the votes are all counted. Low and behold, it's an electoral tie: 73 Electoral votes for Jefferson, 73 Electoral votes for Burr and 65 votes for Adams. Jefferson and Burr are now basically in a run off, and the influential Alexander Hamilton (who had despised Jefferson his entire life) throws his influence behind Jefferson who wins the election. Hamilton and Burr wind up in a duel and Burr is mortally wounded.

The early days of 1801 find Jefferson inaugurated as America's third President, Aaron Burr is his Vice President, and for the first time in American history, we see a peaceful transfer of power from one political party to another in the United States.

So How Did He Do?

A contingent of sword-bearing soldiers accompanied Jefferson to his inauguration fearing the worst. Jefferson, the statesman, rose to the occasion and declared in his inaugural address, "We are all Republicans, we are all Federalists."

After taking office, one of the first things Jefferson did was take the late Hamilton's advice to strengthen the US Navy. It wasn't long before they were deployed to fight Barbary Coast pirates to protect American shipping interest off the shores of Tripoli. Jefferson managed to reduce the national debt left over from the Revolutionary War by almost half. He took advantage of global politics (the Napoleonic Wars) to acquire the Louisiana Territory, which more than doubled the size of the young United States. Before his first term expired, he'd sponsored the Lewis and Clark expedition, opening the West to exploration and settlement. Not a bad set of accomplishments for a man whose opposition guaranteed he'd lead the country to "doom and destruction."

Recognizing the Constitution's flaw, Congress passed the 12th Amendment in 1804, stating that the nominees to get the second-most number of votes would no longer be elected Vice President.

It Must Run In The Family

The election of 1828 was a free-for-all. John Adams' grandson, John Quincy Adams, was in the White House finishing his term as sixth US President. He wasn't particularly popular, had a lackluster term in office and was now running against the hero of the Battle of New Orleans, Old Hickory himself, Andrew Jackson.

Adams came out swinging. He called Jackson a dictator and a hick. He said he was uneducated and spelled Europe, 'Urope (shades of Dan Quayle and potato, "you forgot the e---!!"). Adams accused Jackson's wife of being "a convicted adulteress" (shades of Bill Clinton) and a woman open to any proposition. Jackson's spin people were no slouches either. They accused Adams of having sold his wife's maid as a concubine to the Czar of Russia (shades of Trump and Putin being a bit too chummy). Jackson wound up winning the election pretty handily and went on to a presidency punctuated by severe highs and lows.

We'll start with the lows (it's always nice to end on a high note). In 1832, Jackson vetoed the bill to renew the charter of the second National Bank of the United States, the nation's Central Bank. He felt they had too much power and could ruin the country. In 1835, he paid off the entire national debt with the money held by the Central Bank. Local and regional banks now relaxed their lending standards and started maintaining unsafe reserve ratios (sound familiar?). Within a couple of years, the number of banks that failed grew, eventually leading to the Panic of 1837 and the Depression that followed. It would be more than 80 years before the United States once again had a Central Bank.

It was Jackson's strong belief that the backbone of America was the small family farm. With a growing population, he wanted to see new farmland opened up. Disregarding the United States Supreme Court, he enforced the "Indian Removal Act," which forced the unlawful removal of Native Americans from the South to the West, opening fertile land in the South to white settlement and created what history refers to as the "Trail of Tears" for the genocidal devastation it caused to the displaced Native Americans.

As promised, I want to end on a high note in regards to the Jackson presidency. Not an easy thing to do. In 1832, the state of South Carolina declared the right to nullify federal tariff legislation because they claimed it hurt the state's financial interests and threatened to secede from the Union. Jackson didn't waste a minute. He immediately had introduced before Congress a "Force Bill" that would allow him to send federal troops to South Carolina to enforce laws and prevent secession. This prompt action gave South Carolinians a chance to reflect on their threatened actions. Compromise legislation was passed a few months later and Civil War was narrowly avoided. Almost 30 years later, President Lincoln recalled Jackson's decisive action as key in avoiding an earlier Civil War and hoped he could navigate a similar course.

Honest Abe Had His Sly Side

The election of 1860 came down to four principal candidates: Republican Abraham Lincoln, former Congressman from Illinois, versus a divided Democratic Party with Stephen Douglas (his longtime Illinois foe) representing the North and Breckinridge and Bell representing the Democratic Party in the South. It wasn't long before the two great orators of their time, Lincoln and Douglas, locked into battle.

In the mid-19th century, it was considered unseemly for candidates to hit the stump trail campaigning. Douglas, however, decided he would do just that. Douglas characterized his one-month trip from Washington D. C. to New York as a trip to "visit" his mother, even though he was giving campaign speeches every mile of the way.

Never one to be outflanked, Lincoln decided to release "lost child flyers throughout the East." The handbill read, "Lost child, left Washington D. C. sometime in July to go home to his mother who is very anxious about him. Seen in Philadelphia, New York City, Hartford, Connecticut and at a clambake in Rhode Island. Answers to the name "Little Giant" (Douglas was 5'3"), talks a great deal very loud and always about himself..." Pretty clever when you think about it. Now Douglas was no fool and didn't take this ridicule lying down. He referred to Lincoln as "a horrid-looking wretch, spotty and scoundrelly in aspect, a cross between the nutmeg dealer, the horse-swapper and the nightman. The leanest, lankiest most ungainly mass of legs and arms and hatchet face ever strung on a single frame."

Lincoln's victory in November 1860 sealed America's fate. Before he was even nominated, the South said if a Republican was elected, they would secede. And a Republican was elected, with little more than 40% of the popular vote. By March 1861, seven states had already seceded from the Union to form the Confederate States of America with Jefferson Davis as its President. It's been said, for preserving the Union and bringing an end to slavery, and for his unique character and powerful oratory, Lincoln is hailed as one of the greatest American Presidents. Not bad for a "hatchet- faced horse-swapper."

The Election of 1884

Now historians, not me, have called him the Bill Clinton of his time. Grover Cleveland grew up in New Jersey. His minister father passed away at an early age. Grover left school to help his family, eventually becoming a law clerk in upstate New York. Rotund and gentle, he had a nice way with people. They liked him. His friends called him "Uncle Jumbo." He also had a tough uncompromising side. Eventually, he passed the bar and became the first sheriff of Buffalo New York to oversee a hanging. He was independent and opposed to corruption. His personal motto

was “a public office is a public trust.” That mindset helped him eventually become Mayor of Buffalo and then Governor of New York State. That’s when he stepped onto the national stage. Here’s where the Clinton connection comes in. Keep in mind that Cleveland was a bachelor and really loved the ladies, and many of them loved Uncle Jumbo right back. One of them was a widow named Maria Halpin with whom he had a child out of wedlock. He recognized the child as his and fully supported the child and mother financially. There were no marriages ruined, no paternity test, no child support issues, but this was 19th century America, and Cleveland’s Republican opponent for the presidency made as much hay with the situation as he could. In fact, at the Republican Convention, nominating Cleveland’s opponent, James Blaine, they came up with a ridiculing chant against Cleveland which was “Ma, ma, where’s my pa?”

Cleveland heard the chant at every rally he attended until the election. But Uncle Jumbo was no wimp. His campaign suspected Blaine was taking money from the railroads, the biggest lobby in its day. Somehow Cleveland’s people got a hold of a letter Blaine wrote in his own hand. It confirmed his involvement in corrupt business. He signed a letter, “My regards to Mrs. Fisher, burn this letter.” Needless to say, Cleveland’s supporters came up with their own chant, “burn this letter, burn this letter.”

Cleveland defeated Blaine, handily becoming the first Democratic president in many years. He actually served as both the 22nd and 24th President, having been beaten in 1888 by Benjamin Harrison. His tenure as President was punctuated, like Jackson’s, with highs and lows. To his credit, he lobbied to uphold the merit system in government, advancing those that demonstrated hard work and superior skills over those that had been appointed by previous administrations. To his discredit, he sent in troops to break up the Pullman Strike of 1894. Perhaps the man is summed up best in his own words. Lying on his deathbed in Princeton, New Jersey in 1908, his closest friends around him, his last words were, “I have tried so hard to do right.” It doesn’t get much more basic than that.

The Humanitarian Versus The Reformer

Perhaps one of the most misunderstood matchups in presidential elections occurred in 1928, when two very decent and honorable men, men who easily could have been friends outside the world of politics, both entered the race for President. Neither one was an incumbent. It was challenger against challenger.

On the Democratic side, you had the wildly popular Al Smith, four-time governor of New York. He had tried for his party’s nomination four years prior and lost that. A progressive who believed in public parks, public education and an end to prohibition, he was now ready. His grandparents were immigrants and fought for the Union in the Civil War. He was urbane, humorous and one of the great orators of his day. And he was Catholic.

On the Republican side was one of the great humanitarians of the 20th century, Herbert Hoover. Orphaned by age nine, Hoover grew up in Oregon. By his mid-20s, he found himself in China during the Boxer Rebellion, where he organized relief efforts for stranded foreigners. From there, he headed relief efforts for the Belgians as they were starved during World War I. It is said that his creative service prevented millions of deaths during World War One. At the end of the War, President Wilson, a Democrat, appointed him to head the Food Administration which helped post-World War I Europe feed its people. Think of the Marshall Plan almost 30 years earlier. President Harding picked him as Commerce Secretary, and President Coolidge left him there on Harding's death. Hoover was responsible for championing massive public works projects like the Hoover Dam and the St. Lawrence Seaway Project. Yet all the while a bubble was building in the markets and the economy that was going totally undetected by most.

When Coolidge decided not to run for a second term, the Republicans immediately got behind Hoover for President. When accepting his party's nomination, he famously said, "We in America today are nearer to finding triumph over poverty than ever before in the history of the land," but a year later the stock market crash of 1929 struck, and the worst economic downturn Americans had ever known was upon us.

The Election of 1928

The election really wasn't close. New York had just about completed the Holland Tunnel connecting New Jersey to Manhattan. Hoover's operatives leaked the story that there was a "secret 3500-mile bore" linking New York to the Vatican so that the Pope and Smith could collaborate on the "secret Catholic agenda." Smith didn't help himself too much by getting the "Sultan of Swat", the great Babe Ruth, to be one of his surrogate spokespeople. Although still a great player, the effects of alcoholism were showing. Remember, this is still during Prohibition, and Ruth would show up at rallies in his underwear with a pint of beer in his hand extolling the merits of Smith for President (think of Sarah Palin's endorsement this past election).

Hoover's Presidency went from bad to worse. This honorable man contacted business leaders not to eliminate jobs or cut wages. He supported the Reconstruction Finance Corporation intended to provide businesses with capital. Yet businesses closed one after another. Soup lines grew, and then the nail in the coffin was struck. Hoover signed into law the Smoot-Hawley Act, which raised taxes on imports and prompted foreign nations to stop buying American-made goods at a time when the country desperately needed the sales.

Don't let anyone tell you about the miracles of tariffs. They are an antiquated idea which produces next to nothing in federal revenue in the modern age.

Now I Don't Mean To End This History Lesson On a Down Note

Please don't misconstrue the fact that I ended my recounting of nasty tactics in presidential politics with Herbert Hoover with the assumption that I feel we're in for a depression no matter who is elected. Quite to the contrary, always having been a person that views a glass half-full, not half-empty, I do believe America's greatest epochs lie ahead of us, not behind us. That's not to say there aren't tremendous challenges ahead. No matter who is elected, here are just a few:

- A. Slower Growth, also known as secular stagnation. With your population growing older, the difficulties of spurring growth will require increasing creative policy mechanisms. Most call this the new normal.
- B. Fix a failing education system. For the first time in history, Americans owe more in student loans than the country owes in credit card debt. Yet what do students get for it? Increasingly, it is a lifetime of underpaying jobs that barely pay the interest on their loans.
- C. Debt, debt, mounds and mounds of national debt. I've illustrated it in so many ways, just how big 20 trillion is (the amount of our deficit, not counting pension deficits, Social Security deficits, Medicare deficits and the like), but I'll try one more time just for the heck of it. Remember the number is 20 trillion, the amount of national debt, so here goes:
 - C.1 One million seconds equal 12 days
 - C.2 One billion seconds equal 31 years
 - C.3 One trillion seconds equal 31,688 years
 - C.4 Meaning: If we were to pay off the debt at a dollar a second (not adding on interest), it would take us almost 650,000 years to pay off our national debt. Can you turn your back on it forever? Absolutely not, no matter who is elected.
- D. The Chinese card. For the past 15 years, China has moved the global economy forward. It doesn't matter who you talk to, all the analysts are in agreement: China's economy has slowed down. Really, that should come as no surprise to anyone. The question is: do they have the ability to change from a labor-intensive manufacturing economy to a higher, value-added activities and a consumption economy? I think they can, but it will take time. There is no doubt that a slowdown in the astonishing rate of the world's second-largest economy will have an impact on the economically vulnerable developing world.
- E. National infrastructure. Most of our highways were built back during the Eisenhower administration. Our population has doubled since then, and the two political parties have been in gridlock (no pun intended). Change is not an option but a necessity.

- F. Let's just call this the catch all. Any good writer knows not to overstay their welcome. A-E are just a start. Add to these a fragile and often corrupt banking system (think Wells Fargo), global conflict, acts of terrorism and a widening gulf between the haves and have-nots.

Conclusion

Honestly, when you think about it, it's a miracle anyone wants to run for president. Just look at any series of photos over the last hundred years and you'll see exactly what I'm talking about when you compare their Inauguration photo to their final official portrait. They've all aged well beyond their chronological years.

What I want you to take away from this commentary is this: when you hear a politician say on day one, "When I'm President, I'm going to eliminate this or scrap this or that," know that our founding fathers were too smart for that. That's why you have the three branches of government—legislative, judicial and executive. As much as they might like to operate with unilateral power, it doesn't work that way.

Going forward, we have been keeping a keen eye on specific industries that will be affected one way or the other regardless of who is elected. Healthcare is in everybody's crosshairs because of the outrageous cost of drugs. Financial services are in the crosshairs because now it's gone from too big to fail to too big to manage, and the defense industry is in the forefront because both candidates have been very vocal in the fact that our troops do not have the equipment they deserve.

Thanks for your patience in sticking with the article. Please take an extra minute or two to read the expanded reprint we sent out last quarter reporting on some regulatory changes and how they affect the price/carry, not the value of a certain class of non-traded securities that could be in your portfolio. I look forward to seeing you at our next review. Until then...

Warmest Regards,

Ray Lent
RLL/dot
Enclosures