
FEEL THE BERN

Last week we highlighted the rising risk to growth caused by an economically socialist candidate taking the lead in the Democratic Party for 2020. We wrote,

“The biggest risk to stock markets in 2020 is the possibility of an anti-growth agenda taking power. A Bernie Sanders policy set would be disastrous for economic activity and result in recession, stock market collapse and a weak U.S. Dollar. Joe Biden’s policy set is certainly nothing to get excited about, but Biden is still the least dangerous Democratic candidate policy-wise. We are not surprised to see investors sell risk assets over the past few days as the odds of a Sanders’ nomination surge.

One week later and the Sanders risk is increasing. As a longtime client and friend who is an entrepreneur and owner/operator in the healthcare industry has been warning, the country may soon “Feel the Bern.” Tonight’s Iowa caucuses could prove him correct, as election betting markets show Sanders with 74% chance of winning. Should Sanders win Iowa there will be no denying the reality of a Sanders’ nomination for President. Add Tulsi Gabbard to Bernie’s ticket, and the Democrat Party could have a very popular pair.

Growth assets are not liking this rising risk. In just the past week the expected real growth rate component of the 10-Year U.S. treasury has collapsed into negative territory. That’s correct, bond investors now expect a -0.14% real growth rate for the U.S. economy over the next ten years! A Bernie Sanders policy set can certainly make that so. Just look at some of his recent policy promises.

A bill introduced last week by Sanders that Rep. Alexandria Ocasio-Cortez helped craft would ban fracking nationwide by 2025. The legislation would immediately prevent federal agencies from issuing federal permits for expanded fracking, new fracking, new pipelines, new natural gas or oil export terminals and other gas and oil infrastructure. Energy sector investors don’t like this threat.

Sander is proposing a “Medicare for All, single-payer, national health insurance program to provide everyone in America with comprehensive health care coverage, free at the point of service. No networks, no premiums, no deductibles, no copays, no surprise bills. Medicare coverage will be expanded and improved to include: include dental, hearing, vision, and home- and community-based long-term care, in-patient and out-patient services, mental health and substance abuse treatment, reproductive and maternity care, prescription drugs, and more.” Sanders also plans to “Stop the pharmaceutical industry from ripping off the American people by making sure that no one in America pays over \$200 a year for the medicine they need by capping what Americans pay for prescription drugs under Medicare for All.” Healthcare sector investors don’t like this threat.

Earlier today Sanders tweeted, “Of all the corrupt institutions in America, I haven’t figured out who’s worse: Wall Street or the drug companies.” Sanders is proposing a financial transaction tax that would tax a fraction of a percent on the trades of stocks, bonds, and derivatives. Financial sector investors don’t like this threat.

Sanders is even targeting specific companies with a comment today - “What do Amazon, Starbucks, Chevron, Netflix, GM, Duke Energy, Xcel Energy, Halliburton, Eli Lilly, JetBlue, U.S. Steel, FedEx, and Dow-DuPont have in common? They all paid \$0 in corporate taxes last year. We need government of, by, and for the people—not huge corporations.” Global investors in these companies don’t like this threat.

Ultimately, we do not think that Sander’s proposed policy set can beat a pro-growth agenda presented by Trump. But until investors see more certainty, they may continue to sell risk assets and hedge against the growing chance that Sanders may actually win the Democratic nomination. If he were to actually win the Presidency and implement the policies threatened above then we should expect a bear market that would rival any in economic history, most recently being 2008-09.

ALLOCATOR

Fixed Income

Bonds are an asset class that does well in a deflationary policy environment (Low Growth & Strong Currency)

We have long said the Treasury bond bubble will pop again as it did from May2013-Jan2014 when long term Treasury bonds fell 18%. With voters choosing Trump's pro-growth agenda to ignite growth, we believe the this is even more likely. Treasury bond prices are at risk to fall 30-50%, and we expect any moves higher in bond prices (lower in yields) to be short-lived. Since most other bonds price off of Treasury yields, fixed income in general is a risky asset class.

Asset	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/Loss	Policy Notes
Investment Grade	LQD	9/9/2016	\$119.00	\$131.09	10.2%	
Aggregate Bond	AGG	9/9/2016	\$109.00	\$114.65	5.2%	
Municipal	MUB	9/9/2016	\$111.00	\$115.80	4.3%	
TIPS	TIP	9/9/2016	\$114.00	\$119.06	4.4%	
Extended Duration	EDV	9/9/2016	\$128.00	\$143.39	12.0%	
US Treasury 3-7 yr	IEI	9/9/2016	\$124.00	\$128.06	3.3%	
US Treasury 7-10 yr	IEF	9/9/2016	\$109.00	\$114.04	4.6%	
US Treasury 20+ yr	TLT	9/9/2016	\$133.00	\$145.90	9.7%	
International Total Bond	BNDX	9/9/2016	\$54.40	\$57.65	6.0%	
High Yield	HYG	4/12/2016	\$77.00	\$87.53	13.7%	Act more like equities than bonds, benefit from improving growth

ALLOCATOR

Commodities

A change in the price of gold is a change in the value of the currency. When gold rises, the currency's value falls and vice versa. Commodities are an asset class that does well when the currency is weak.

If growth is slowing while the currency weakens, there is stagflation. Own precious metals.

If growth is accelerating while the currency weakens, there is an inflationary expansion. Own agriculture, industrial and energy commodities.

Commodities suffered heavy losses in the strong US Dollar environment 2012-2015. In 2016 Dollar weakness was caused by election uncertainty and commodities rallied. That weak Dollar trend was reversed by Election2016. The demand for transactional and asset based Dollars will rise if Trump's pro-growth policies are implemented and fall if his policy agenda fails. Gold's recent decline back below \$1,300/oz is a confirmation of better policy and rising growth rates. Capital is beginning to leave safe haven asset classes as policy uncertainty diminishes.

Asset	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/Loss	Policy Notes
Gold	GLD	10/2/2017	\$120.77	\$149.33	23.6%	
Silver	SLV	10/2/2017	\$15.67	\$16.82	7.3%	
Energy	DBE	8/13/2014	\$28.97	\$12.59	-56.5%	
Oil	USO	7/30/2014	\$37.00	\$10.84	-70.7%	
Agriculture	DBA	9/13/2011	\$32.50	\$15.65	-51.8%	
Broad Comm. Index	GSG	8/5/2011	\$33.00	\$14.49	-56.1%	
Base Metals	DBB	6/17/2011	\$23.00	\$14.10	-38.7%	

ALLOCATOR

Real Estate

Real Estate is an asset class that performs well when growth is accelerating. When rising growth is coupled with a strong currency, own real estate tied to business activity (like commercial REITS). When rising growth is coupled with a weak currency, own real estate tied to commodities (farmland).

Commercial RE will be helped by improving real economic growth. RE properties leveraged to businesses & economic growth are preferred under pro-growth US policies.

Asset	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/ Loss	Policy Notes
Residential	REZ	12/21/2016	\$61.00	\$78.07	28.0%	
Building/Construction	ITB	12/21/2016	\$28.00	\$47.50	69.6%	
Mortgage REIT	REM	4/1/2016	\$35.00	\$46.11	31.7%	
REIT	VNQ	3/7/2016	\$75.50	\$93.93	24.4%	

ALLOCATOR

US Equity

We have been waiting for a 1980s/90s type of policy driven equity bull market for sixteen years. The 2014 midterm House/Senate/gubernatorial election shifts put us on the path as pro-growth candidates propelled the GOP to majorities. It was a repudiation of anti-growth economic policies and a big step toward a Reagan/Clinton type of equity bull market. Despite the voters' growth signal, Obama doubled down on his tax/spend/regulatory (EPA) agendas in 2015 causing stocks to be range bound and volatile. As 2016 began, policy uncertainty ahead of November's elections became the biggest threat to equities. The ebb and flow of the presidential political season moved markets in both directions as investors waited to learn which policy theme would prevail in November – growth vs. redistribution. Voters decisively made their choice in Election2016, and growth won. Trump's pro-growth policy agenda beat Hillary's anti-growth policy agenda in landslide fashion. Republicans retained control of the Senate, House and increased their control of governorships by three. The policy stage is now set for Trump and Congress to keep delivering pro-growth tax, regulatory and monetary policies. As they do, a bull market in U.S. equities will ignite to rival the 1980s/90s

US Equity - Cap Size

Asset	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/Loss	Policy Notes
Micro	IWC	7/11/2016	\$72.00	\$94.89	31.8%	
Total Market	IWV	5/19/2016	\$117.00	\$188.27	60.9%	
Large	IWB	5/19/2016	\$111.00	\$178.64	60.9%	
Small Cap	IJR	5/19/2016	\$54.00	\$80.48	49.0%	
Mid Cap	IWR	4/6/2016	\$38.57	\$59.12	53.3%	

POLICY BASED INVESTING

February 3, 2020

US Equity - Style

Asset	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/Loss	Policy Notes
Large Growth	IWF	7/11/2016	\$101.00	\$179.90	78.1%	
Small Growth	IWO	7/11/2016	\$140.00	\$211.99	51.4%	
Small Value	IWN	5/19/2016	\$92.00	\$121.84	32.4%	
Mid Growth	IWP	5/9/2016	\$90.00	\$153.95	71.1%	
Large Value	IWD	4/6/2016	\$95.00	\$133.56	40.6%	
Mid Value	IWS	4/6/2016	\$68.00	\$92.93	36.7%	

US Equity - Sector

Asset	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/Loss	Policy Notes
Staples	XLP	6/5/2017	\$57.00	\$63.18	10.8%	
Utilities	XLU	6/5/2017	\$54.00	\$68.98	27.7%	
Metals/Mining	XME	5/8/2017	\$29.00	\$24.89	-14.2%	Tied to commodity prices, hurt by strong Dollar
Energy	XLE	3/13/2017	\$69.00	\$53.44	-22.6%	Tied to commodity prices, hurt by strong Dollar
Healthcare	XLV	2/8/2017	\$71.00	\$99.14	39.6%	
Discretionary	XLY	11/14/2016	\$79.00	\$125.32	58.6%	Consumer strong w/ rising growth expectations
Financial	XLF	7/18/2016	\$19.00	\$29.96	57.7%	Helped by Trump deregulation (Dodd Frank)
Materials	XLB	4/6/2016	\$44.00	\$57.63	31.0%	
Industrial	XLI	3/14/2016	\$52.00	\$81.11	56.0%	
Technology	XLK	3/7/2016	\$41.00	\$95.33	132.5%	Repatriation tax reform huge plus for tech companies

Foreign Equity

Country	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/Loss	Policy Notes
China	FXI	8/5/2019	\$39.86	\$39.74	-0.30%	China's currency devaluation policy is a growth killer
Hong Kong	EWK	7/6/2016	\$24.08	\$22.91	-4.86%	
Mexico	EWX	10/1/2018	\$51.23	\$45.86	-10.48%	Freer and fairer trade agreements are pro-growth for all parties involved
Canada	EWC	10/1/2018	\$28.78	\$29.67	3.09%	
Denmark	EDEN	7/2/2018	\$63.89	\$69.24	8.37%	European polices not improvng despite anti-austerity movements across the Euro Zone. Capital is fleeing. A zero trariff trade deal with the U.S. would reverse course and be very pro-growth for European economies.
Switzerland	EWL	7/2/2018	\$32.58	\$40.74	25.05%	
Netherlands	EWN	7/2/2018	\$30.51	\$32.69	7.15%	
Sweden	EWD	7/2/2018	\$30.51	\$32.01	4.92%	
Eurozone	EZU	7/2/2018	\$41.01	\$40.48	-1.29%	
Spain	EWP	7/2/2018	\$30.35	\$28.01	-7.71%	
Poland	EPOL	7/2/2018	\$21.78	\$20.03	-8.03%	
France	EWQ	7/2/2018	\$30.52	\$31.40	2.88%	
Germany	EWG	7/2/2018	\$29.98	\$28.53	-4.84%	
Italy	EWI	7/2/2018	\$28.89	\$28.78	-0.38%	
Austria	EWO	7/2/2018	\$22.65	\$19.99	-11.74%	
Israel	EIS	2/26/2018	\$52.41	\$58.67	11.94%	
Vietnam	VNM	10/9/2017	\$14.99	\$14.89	-0.67%	Demographic leverage to US economic growth policies
Indonesia	EIDO	7/24/2017	\$26.78	\$24.18	-9.71%	Demographic leverage to US economic growth policies
Ireland	EIRL	1/26/2017	\$39.00	\$44.41	13.87%	
Singapore	EWS	1/11/2017	\$21.00	\$22.89	9.00%	
World Ex US	VEU	11/15/2016	\$43.50	\$51.92	19.36%	Global growth reset higher after US Election2016
Norway	ENOR	8/20/2016	\$20.00	\$23.35	16.75%	
UK	EWU	8/4/2016	\$30.50	\$32.64	7.02%	Brexit was a vote for growth

POLICY BASED INVESTING

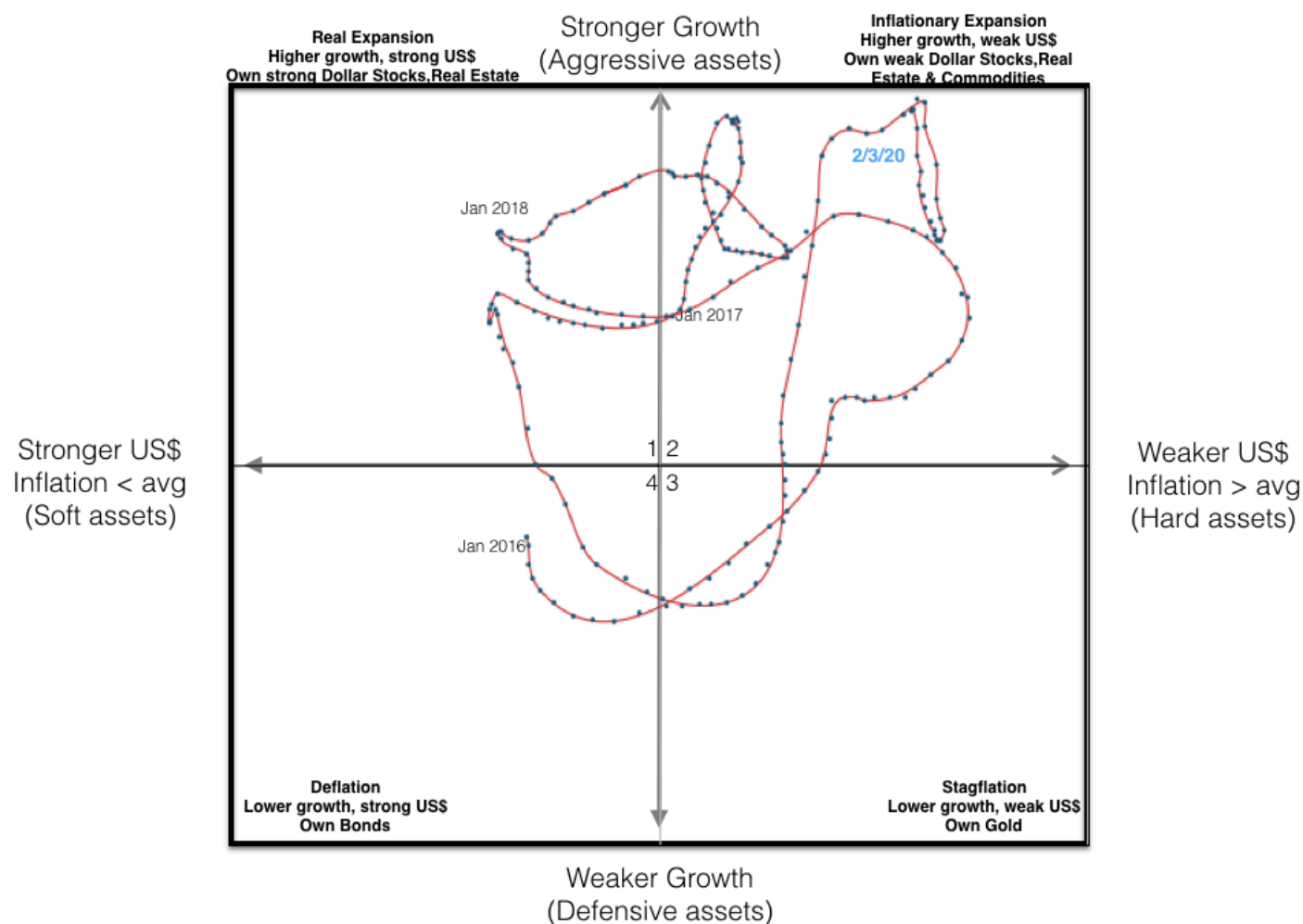
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Finland	EFNL	7/26/2016	\$33.00	\$37.85	14.70%	
Japan	EWJ	7/15/2016	\$47.00	\$57.75	22.87%	Trade deal with U.S. is pro-growth
South Korea	EWY	7/13/2016	\$52.00	\$57.65	10.87%	
Hong Kong	EWH	7/6/2016	\$19.00	\$22.91	20.58%	
Frontier Mkts	FRN	7/5/2016	\$10.50	\$14.03	33.62%	Highly levered to Eurozone growth movement
Peru	EPU	6/29/2016	\$30.50	\$34.44	12.92%	
South Africa	EZA	6/29/2016	\$51.00	\$44.66	-12.43%	
India	EPI	6/27/2016	\$19.00	\$24.28	27.79%	Strong Dollar emerging market, tied to US growth
Taiwan	EWT	6/21/2016	\$27.00	\$37.96	40.59%	
Thailand	THD	5/20/2016	\$64.00	\$78.91	23.30%	
Belgium	EWK	3/16/2016	\$16.50	\$19.28	16.85%	
New Zealand	ENZL	3/5/2016	\$36.00	\$56.16	56.00%	
Philippines	EPHE	8/5/2015	\$37.00	\$31.18	-15.73%	
Qatar	QAT	12/1/2014	\$24.00	\$18.00	-25.00%	
Malaysia	EWM	10/3/2014	\$41.00	\$26.83	-34.56%	
Australia	EWA	9/16/2014	\$22.50	\$22.26	-1.07%	
Greece	GREK	7/14/2014	\$20.00	\$9.52	-52.40%	
Portugal	PGAL	6/4/2014	\$15.00	\$11.03	-26.47%	
Columbia	ICOL	6/27/2013	\$21.00	\$13.07	-37.76%	
Turkey	TUR	6/1/2013	\$58.00	\$27.75	-52.16%	
UAE	UAE	5/20/2013	\$23.00	\$13.21	-42.57%	
Russia	RSX	8/7/2011	\$30.00	\$19.97	-33.43%	Weak Dollar emerging market
Brazil	EWZ	7/14/2011	\$60.00	\$43.76	-27.07%	Weak Dollar emerging market
Chile	ECH	3/1/2011	\$61.00	\$30.67	-49.72%	
Egypt	EGPT	2/23/2004	\$64.00	\$28.63	-55.27%	

POLICY MAP

Growth increased versus last week (1.96 to 2.07): Despite pro-growth tax and regulatory policy improvements since 2016, growth has tipped into negative territory over fears of a 2008-style, deflationary monetary policy mistake.

Value of US\$ unchanged versus last week (1.33 to 1.33): Dollar had been stable between gold \$1,300-\$1,375/oz, and strengthened to \$1,230/oz. giving the Fed a strong Dollar signal to pause rate hikes until economic and market data calm down. Recent Dollar weakness above \$1,400 is concerning but likely has some temporary geopolitical causes like Iran.



BOND YIELD COMPONENT ANALYSIS

Nominal Yield: 1.51% (-11%) Inflation Expectation Component: 1.65% (-2%) Real Growth Component: -0.14% (-800%)

Real growth expectations embedded in the Treasury bond market have been dislocated from equity markets in 2019. Some of the collapse in real growth has been caused by global bond market dynamics with negative interest rates across the globe. But now the risk of a serious deterioration in U.S. policy is also weighing on growth. With post 2020 election policy still uncertain and Bernie Sanders' anti-growth gaining momentum for the DNC candidacy, the Fed may need to cut rates again soon.

