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To: Our Clients
From: Peter Cavelti

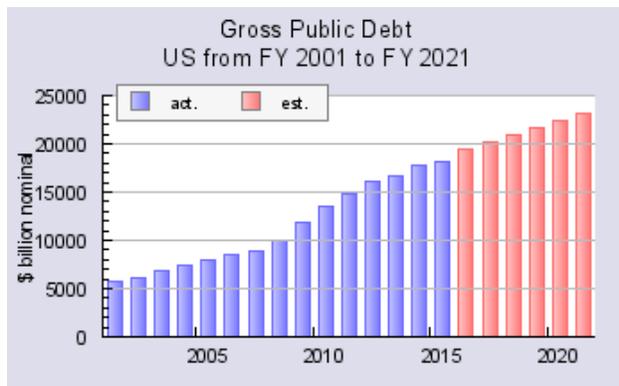
About America

Dear Client:

So, Donald Trump is scheduled to become the 45th president of the United States. Emotions are running high, mostly thanks to a dysfunctional media complex. Polarization is deepening. Depending on which side you're on, one nightmare has just ended, or another just begun.

Since most of the readers of this letter are Americans, I may as well declare myself. My sympathies run neither toward Democrats nor Republicans—I see both parties as deeply corrupt institutions. When it comes to the new president, I'm learning to distinguish between Trump-the-Man, some of whose ideas deeply disturb me, and Trump-the-Politician, who may produce positive changes. I unapologetically applaud Mr. Trump's views on the decentralization of government, his opposition to coercive globalization, his proposals for comprehensive tax reform and repatriation of U.S. corporate cash hoards, and his promise to stand up to an out-of-control central bank. If the president-elect manages to progress on only one or two of these fronts, I'll be impressed.

So far, financial markets have blithely celebrated Trump's stated intentions, focusing primarily on the promise of lower taxes and less regulation. But, for several reasons, Wall Street's party may prove premature. To begin with, Donald Trump and his cabinet have yet to articulate details of



their programs—coming up with broad-brush narratives is easy, articulating specifics notoriously tricky. Then there is Congress. That the Republicans control both the Senate and the House of Representatives helps, but will the legislators go along with changes as sweeping as those wanted by the new president? Macro challenges like the colossal U.S. debt and a deteriorating demographic profile are likely to dominate negotiations, introducing the risk that Mr. Trump's bold initiatives may be transformed into watered-down compromise solutions.

Finally, there is the issue of policy cohesion. One of the hallmarks of Donald Trump’s fledgling political career has been his habit of spouting opinions on far too many subjects. Some of his judgments glaringly contradict each other. Will the Trump team manage to establish a consistent theme, both on the domestic and foreign policy fronts? I find it reassuring that Mr. Trump has attracted highly experienced private-sector professionals to some of his top cabinet posts. People like Wilbur Ross, Rex Tillerson and Steven Mnuchin have successfully run complex international businesses. I imagine they have strong personalities and are used to getting their way. What no one asks is this: will they be able to work as a team or will each barge off in a different direction? And, importantly, how will they interface with someone as impetuous and domineering as President Trump?

Priced for Perfection

So far, the markets have taken such questions in stride, which make me wonder how they will react when policy details emerge and hard questions are asked. Our view is that U.S. markets are now priced for an almost perfect outcome.

We’re not complaining, because our performance results for 2016 are better than we could have anticipated. Some of that is due to the Trump honeymoon and some to our internal decision making. We did well staying completely out of bonds and foreign stocks, which have been hammered hard. Another key factor behind our success was to avoid specific “investment styles” and take a more pragmatic approach.



We believe it make sense to continue along this path, especially when we contemplate the global context. Even if we assumed that the U.S. economy was moving towards overall improvement, the rest of the world looks distinctly unstable. The EU is caught up in nationalism, with upcoming federal elections in each of the Netherlands, France and Germany harboring the possibility of further decentralization or an outright breakup of the union. Japan is a train wreck, China is struggling, and much of the remaining emerging markets complex is in disarray. Given these uncertainties, we want to keep being prepared for a variety of outcomes and stay with a short-term orientation.

A Banner Year

Your assets have appreciated in excess of 20%, which makes 2016 the best performance year in a decade. We are particularly pleased that we managed a return twice as good as that of the major U.S. indices, against a difficult background, while following a defensive strategy. Notably, this result was also achieved in assets invested in the world's presently strongest currency, the U.S. dollar.

If you have concerns or questions, please let Melissa or me know. We send you our best wishes for a healthy, joyful and successful New Year!

Kind regards,

A handwritten signature in black ink, consisting of a large, stylized initial 'P' followed by a cursive name that appears to be 'P. ...'.