



OSBORNE PARTNERS
Capital Management, LLC

What A Trump Presidency Means To Your Portfolio, Taxes, and Healthcare

November, 2016

In case you did not hear the news, Donald Trump will be our 45th President of the United States. In advance of the election, our Investment Team compiled our lists of positively and negatively affected asset classes and sectors, and investments that were likely to experience policy tailwinds under each candidate. In this piece, we put any political opinions aside and focus on our views about how your portfolio, taxes, and healthcare are likely to be affected under a Trump presidency.

YOUR PORTFOLIO — We believe a number of areas will experience tailwinds from the incoming administration. First, pharmaceuticals, biotech, and drug distributors should be positively skewed as Trump will likely be softer against drug pricing. The potential repealing or adjusting of the Affordable Care Act (ACA) should result in changes that are less onerous on these healthcare companies. Next, industrial metals, which we are overweight in portfolios, should see dual tailwinds from increased infrastructure spending and more protectionist actions for industries constantly fighting cheap imports or foreign “dumping”. Defense companies should see increased spending, while many energy stocks, including the natural gas exploration and production companies we own, should experience reduced regulations, and greater pipeline capacity as project approvals increase. Banks may have decreased legal burdens and regulation as the yield curve steepens on the potential for increased inflation; a triple positive. Finally, companies with high foreign cash holdings should be able to repatriate the cash at a dramatically reduced tax rate. On the negative side, repealing the ACA may hurt hospitals and medical lab companies, while U.S. autos may be slapped with tariffs on cars made outside the U.S. and shipped back in. OPCM has low to no exposure in these areas. Finally, Trump mentioned he may attempt to block the AT&T acquisition of Time Warner. As portfolios hold Time Warner, OPCM is certainly against the block.

TAXES — On the corporate side, tax rates may fall from their present lofty levels. We believe somewhere in the 15-20% area will be the final number. As mentioned earlier, companies should generally be able to repatriate cash at a tax rate as low as 10%. For personal taxes, Trump has discussed a simplified three bracket system. Families with income under \$75,000 would pay 12% tax, \$75,000-\$225,000 pay 25%, and the top bracket defined as income above \$225,000 pays 33%. Generally everyone pays less, and high income families pay about 7% less. Additionally, AMT, estate tax, and the marriage penalty disappear while Trump plans to close the carried interest loophole. Of course, the most major question becomes, “will the higher after-tax income for both corporations and individuals result in the excess income being spent on good, services, R&D, and new hiring, or will these funds be pocketed?” We feel the answer likely falls in the middle with a spending lag in 2017.

HEALTHCARE — Although the healthcare system will continue to be confusing as ACA is repealed or changed, there has not been any discussion about changes to Medicare for individuals older than 55. He also wants to give every Medicare





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enrollee an income-adjusted contribution toward their choice of plans. He is in favor of purchasing pools for individuals and small-businesses to reduce the number of uninsured Americans, along with supporting malpractice damage caps which could reduce healthcare costs for all.

The characteristics of his economic plan, if successful, are essentially more infrastructure spending to improve our competitiveness, more after-tax income for individuals, a more business friendly environment for both small and large businesses, less regulation, a more simplified government, and the reform of rules and laws that may have slowed the economy over the last decade. Much of the information above should be made clear during President Trump's first one hundred days in office starting January 20, 2017. These hundred days should also be one of uncertainty and headlines that may equate to increased market volatility. As usual, we will use elevated market volatility to buy new investments that are temporarily disconnected from their fair valuation.

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