

OCTOBER 2016 COMMENTARY

As the presidential election draws near, it is natural to wonder how the results might impact the financial markets. Sadly, it seems that many people may be voting against the other party's candidate rather than out of enthusiasm for their own choice. As you watch the debates and interviews it is easy to forget that the presidency is just one of the three branches of government. Candidates may make many promises, but without the approval of Congress, those promises often become little more than empty words. Currently, the Republicans have a 4-seat majority in the Senate and a 30-seat majority in the House of Representatives ("House").

The Senate

Senators are elected for six year terms, and the terms are staggered so approximately one-third of the total membership of the Senate is elected every two years. Of the 34 Senate seats up for election, 24 seats are currently Republican while only 10 are Democrat. Five of the Republican-held Senate seats up for election are in states that President Obama carried twice. The Republicans face an uphill battle to maintain control of the Senate. Depending on which party wins the presidency, the Democrats would need to win either 4 or 5 seats to regain the majority (the Vice President can cast the tie-breaking vote). As of October 12, 2016, respected polling service FiveThirtyEight puts the odds of The Democrats reclaiming control of the Senate at 55%.

The House of Representatives

Contrary to what you have heard in recent days, the chances of the Democrats regaining control of the House are very low. All 435 seats in the House are up for election every two years. The Democrats would need to pick up 30 seats to become the majority party. While that might not seem like a large task, events that occurred in 2010 make it all but impossible. Every ten years the United States has a census, last done in 2010. The political party that is in control of the state government has great influence in how the voting districts are redrawn. After the 2010 election, as the result of a coordinated plan known as REDMAP (Redistricting Majority Map), Republicans gained control of both state legislative branches in 25 states, up from 14 prior to the election*. While the party in charge of state government has always had significant influence in how districts are redrawn, new technology brought new precision to the gerrymandering process. Thus, according to well-known political commentator Andrew Freidman of the Washington Update, only 12 - 15 of the 435 House seats are viewed as in play. Consequently, the chances of the Democrats regaining the House are miniscule.

Impact on the Markets

Unless we have a Brexit-like surprise and Donald Trump wins the election (FiveThirtyEight has his odds of winning at around 15%), it appears likely the Democrats will control the White House while the Republicans will continue to control at least one legislative body. Without a majority in the House, it is likely that most of Hillary Clinton's platform, including plans to increase taxes on the wealthy, will be "dead on arrival". This means we are potentially looking at 4 more years of seemingly dysfunctional government with little being accomplished. The good news is that financial markets hate uncertainty, but they love familiarity. Dealing with a divided government that features lots of political rhetoric with little action is very familiar to them.

Sincerely,



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DID YOU KNOW . . .

Election

1. **BLUE** - If Hillary Clinton wins the November 2016 presidential election, Democrats will occupy the White House for at least 12 consecutive years. That would be the longest stretch in the White House for the Democrats since FDR and Harry Truman led the country for the 20 consecutive years of 1933-1952 (source: BTN Research).
2. **RED** - If Donald Trump wins the November 2016 presidential election, he will become just the 4th president in history to be elected to the nation's highest office without any prior political experience. The other 3 – Zachary Taylor, Ulysses S. Grant and Dwight Eisenhower – all had high level military experience (source: BTN Research).
3. **POTENTIAL VOTERS** - The number of “Millennials” eligible to vote in the November 2016 election (69.2 million) is just under the number of “Baby Boomers” eligible to vote later this year (69.7 million). “Millennials” are adults aged 19-35 in 2016, i.e., individuals born from 1981-1997. “Baby Boomers” are defined as adults born from 1946-1964 (source: Pew Research).

Employment

4. **MORE MONEY** - 9 of the 10 highest paying bachelor degrees by salary potential for college graduates in 2016 were engineering degrees, including Petroleum Engineering and Systems Engineering (source: PayScale.com).
5. **AGING POPULATION** - 9 of the 12 fastest growing occupations expected in the upcoming decade are in the health care industry, including occupational therapists, physical therapists, home health aides, audiologists and nurse practitioners (source: Department of Labor).
6. **SKILLS SHORTAGE?** - The 5.871 million job openings nationwide as of 7/31/16 were the largest number ever reported by the government for a statistic tracked since December 2000. Just 3 years ago (7/31/13) there were just 3.689 million job openings in the country (source: DOL).

Miscellaneous

7. **RISING PRICES** - Over the 5 years 1977-1981, inflation (as measured by the Consumer Price Index) advanced by +61.5%, an increase of +10.1% per year. Since then, only 1 calendar year (1990) has produced annual inflation of at least +5%. Over the 12 months ending 8/31/16, inflation advanced +1.1% (source: Department of Labor).
8. **COST OF DOING BUSINESS** – Based upon June 2016 data, 69% of the total employee cost that an employer pays in the private sector is for wages and salaries. The other 31% is for the various benefits that are legally required (e.g., Social Security) or are simply provided to attract and retain workers including insurance, retirement plans and paid leave (source: Department of Labor).
9. **ONE PERCENTER** - It took at least \$465,626 of adjusted gross income during tax year 2014 (i.e., the most recent year that tax data has been collected) to rank in the top 1% of wage earners (source: Internal Revenue Service).