

# KEEN ON RETIREMENT



## Washington Insider Greg Valliere on Donald Trump, Hillary Clinton, and Revvng Up the Economy

Welcome to Keen on Retirement  
With Bill Keen and Steve Sanduski

Bill Keen:

Our speaker tonight is what we would like to call, nonpartisan. By the end of our session, you won't know what side of the aisle that he is on. What I do know is that our speaker understands what's happening inside with the candidates. He's seen things that they're not talking about on the normal press. I believe that we will be successful tonight if you exit with a new perspective. We're not trying to change an opinion, but we're trying to bring additional perspective with this event. We're committed to putting resources toward these types of things. Greg flew in from the east coast at about 3:00 today, and he will be flying out tomorrow morning. We are very grateful that he took the time to come out and spend an evening with us. I think after this evening is over you will agree that it was definitely worth our time to get together.

I would like to introduce Greg. He has 40 years of experience following Washington issues for institutional and retail investors. He's widely quoted in the nation's media on political and current events, federal reserve policy and tax and spending issues. If you've tuned into any of the political news recently, you would probably have seen him on CNBC, Fox Business, CNN, CBS Radio to name a few. Greg is currently the Chief Political Strategist at Horizon Investments, but prior to that in his tenure there, he has held positions such as the Potomac Group, as director of research, and the Charles Schwab institute Washington research group. Greg is a 1974 graduate of George Washington University and he and his wife Mary live in downtown DC, at the Watergate, so he comes from an interesting part of the country.

Our program tonight will be, Greg delivers his remarks, and then he has agreed graciously, which a lot of speakers will not do, especially on these topics, to be

available for an open Q&A with the entire room. At about half way through our event, Greg will complete his opening remarks, and we will have microphone runners available with Matt Wilson and I directing that process. Please, as you're going through, hold the questions, but then please bring the questions to the table at that time. I think we're going to have a fun event, so with that in mind, please help me in welcoming Mr. Greg Valliere.

Greg Valliere: Thank you. Thank you. I like that. That's like the all star game. They're all lined up there, giving everyone high five's. What's great, I didn't know Bill was going to mention that I lived at the Watergate, but I live with a neighbor, who's one of the great American's, one of the great living Americans, who's from Kansas, and that's Bob Dole, who lives in the building I live in. He's getting up there. He's 92 years old and he gave his body to his country basically in World War 2, and he's still a very funny guy. He can always make you laugh, quite a character. Wonderful introduction. Thank you so much Bill.

I come here, hopefully as nonpartisan. I'm not here to tell you that the right wing is correct, or the left wing is correct. I want to talk about a lot of issues. I'm not rooting for any one candidate, but I will confess, I am rooting for one thing, and that is, should Donald Trump win, I am rooting that inauguration day is really windy. I'd pay good money to see that thing flying around. That would be a real highlight for me. I'm going to talk for about a half an hour. I want to talk a little bit about where the economy is because you need to, we all need to follow that as investors. Then I'll talk about the dynamics in this crazy election and I will make a case for a Donald Trump presidency. There's a plausible path that he has to win. It's a narrow path, but it's doable for him. Then I'll talk about the investment implications, which I think are significant in this election. Then I'll just end with a rant and Bill will indulge me, about all of the really important issues that aren't being addressed in this very un-serious election. Let me start, as I always do, with a few comments on the economy.

I think you have to conclude, after the economic data of the last week or so, that the US economy may be starting to move into a slightly higher gear. We got a phenomenal unemployment report last week. We got, today, signs that maybe there's a little bit of inflation, which is good. The fed is rooting for a little bit of inflation. A little bit of inflation is welcome. We see sign, in addition to the labor market healing, we see signs that economic growth is picking up as well. I'm a big believer, since this is a nation of consumers, I'm a big believer that the really key factor is real disposable income. Everywhere you look people have more money in their pockets. Gasoline prices are low, stock prices, as we all know, are high, people are refinancing mortgages for the eighth time. They're getting a little extra money there. You're seeing people actually finally get some wage increases. It's been a long time since we've seen wages pick up.

I think the consumer, alone, is enough to have this economy grow by 2 or 2 and a half percent in the second half, maybe even a little bit more. I think that's the good news. The problem though, is I go around the country and tell people this, nobody

believes me. I think that's a reason why both Donald Trump and Bernie Sanders have gotten so much traction with voters who are not persuaded that the economy is in good shape. I just point to surveys that show close to half of all American's think we're still in a recession. The recession ended 7 and a half years ago. Admittedly it has not been a robust recovery. I'd be naive to contend that it is, but everywhere you look you see the economy, in my opinion, picking up and as I travel all around the country ...

I spoke to a wonderful fellow who was a retired airline pilot. I told him I'm up to 2.2 million miles with American Airlines. I travel all around the country and where I go now I see people talking about an acute shortage of skilled labor. If you go to the Bay area, if you go to the Pacific Northwest, if you go to Dallas, if you go to the Southeast part of the US. This is an economy that is actually picking up, but we've had over a decade of stagnant wages, and there's a lot of anger, an awful lot of anger directed toward my city. Let me make the transition then, when we talk about the anger and continued angst about the economy, let me make the transition to some comments on Donald J. Trump. What a phenomenon. I will admit, like most Washington pundits, I didn't feel he would be the nominee. I was a big believer last summer and fall that the most interesting, articulate, electable republican was Marco Rubio. I thought he would have really had a bigger impact, he didn't. We learned some lessons, two in particular.

One is that Donald Trump is consistently underestimated and exceeds expectations, maybe they're low expectations for some people, but he always seems to exceed them, and frankly I think he did this evening with a very solid pick for his running mate. He rejected Newt Gingrich, that would have been a disaster in my opinion, he rejected Christ Christy, who's sort of a clone to Trump, like a little brother of Trump, and he went with someone who is very highly regarded in the house, this is Mike Pence, governor of Indiana, somebody who is really very popular with conservative Christians. It was a smart move for Trump and I think this pretty much will eliminate any threat of an insurrection in Cleveland next week. He continues to exceed expectations.

The other lesson that I think all of us in Washington have learned, is that this fellow has more impenetrable Teflon than any politician I have ever covered in my career. Hillary's gutsy. We'll talk about Hillary later, but when you look at Trump, I thought, like many pundits, about 11 months ago, when he mocked John McCain for being captured? I thought, that's it. He said John McCain got captures and he wasn't a hero. John McCain was tortured for 5 years in a prison in Hanoi. John McCain gave up an opportunity for an early release because they wanted a propaganda victory in north Vietnam because he's the son of an admiral. McCain stayed in the prison for 5 years, while Donald Trump was sleeping with supermodels, and Trump had the temerity to mock John McCain? What happened? Within a week or two Trump's numbers went up. During the fall Trump mocked disabled people, women, minorities, and his numbers continued to go up. He has quite a case of Teflon, never seen anything quite like it. He might have pushed it to the limit with this Mexican-American judge in Indiana, but let's fast forward.

In the Indiana primary, Trump won and then pretty much sowed up the republican nomination. Then for a period of several weeks he acted like a sore winner. Never seen anything like it. He used those weeks, rather than unifying the party, and he needs to do that, he used those weeks to mock the Bush's, The Romney family, he mocked Susana Martinez, the governor of New Mexico, he mocked Nicki Hailey. It's like he had all these vengeance that he had to deal with. I think he squandered an important period where candidates often can build a reputation. During that period, he had zero expenditures on TV ads, and Hillary Clinton had \$50 million in negative ads aimed at him, in states that would be considered swing states.

In my city, inside the beltway, there is now serious case of buyer's remorse on the part of a lot of republicans. Some in public will support him, like Paul Ryan, who I know in private is scornful of Trump, but Ryan has no choice. I think he's going to have to at least give him lip service. This led a lot of people to think there could have been a revolt in Cleveland. Again, as I said a minute ago, I think that's not going to happen. He's going to be the nominee. I would say if you talked to George Will, who's a friend, if you talk to Charles Krauthammer, if you talk to Ryan or Mitch McConnell, they'd tell you it's not necessarily Trump's demeanor, they don't think he's a conservative. On issue after issue he's shown that maybe he's not. He wants huge tax cuts, doesn't care about deficits, wants universal health insurance, higher minimum wage, wants to regulate Wall Street.

On a lot of issues, especially his talk of becoming an isolationist, disengaging from NATO and Southeast Asia, he's really upset the republican establishment, and maybe that accounts for his popularity, but a lot of conservatives feel that he's not one of them. That's why the Pence nomination tonight is so important, that there is a real true conservative now on the ticket. Let's ask the first big question tonight. Could he win? Is it possible that he could put together 270 electoral college votes and win? I would say, yes. There is a path for him to win. Does he have a 50% chance, probably not. Is it a 40% chance, maybe, but it ain't zero. He does have a chance of winning.

The first way to look at this would be the electoral college map. I think that he has a chance to win the rust belt, Pennsylvania, Ohio, Michigan. These are states that hate NAFTA, they hate the Transpacific partnership, all these free trade deals that Hillary Clinton was a support of, until recently she repudiated them, but she was an architect of a lot of these trade deals and it's hurt her badly in those 3 states. If Trump could win those 3 states, if he could hold onto North Carolina, where he's slightly ahead, if he could win Florida, which has tightened up over the last few days, yeah, there is a path where he could get the 270 votes, but more important in my opinion, are the issues. Issues that could break in his direction.

I think first and foremost, the trade issue, as I said, will break in his direction. Will law and order break in his direction? He said last week he's the law and order president. It will help him with his base, but you know, Richard Nixon had that phrase in 1968. The demographics of the US electorate is just slightly different

from 1968. I'm not sure that will help him all that much, but there are other issues, including the perception that the economy is not doing well, including of course, the threat of terrorism, there may or may not have been a terrorist incident tonight in Nice. No one's quite sure, but there's always things like that to worry about, but the main reason why he has a chance, and this is something I want to talk about for a few minutes, the main reason why Trump has a chance is that his opponent is so deeply flawed.

Let's talk a little bit about Hillary Clinton and her campaign. I think it's safe to say that she's now, at best, tied with Trump. The polls have shifted quite a bit. I've talked to people in her campaign and they will tell you, off the record, they worry about five things that could be a real problem for her getting elected. The first thing they worry about is just simply history. History shows since F.D.R. and Harry Truman, only once has one party held onto the white house for 3 successive terms, very unusual. The one time was Regan, Regan, Bush the 1st. That was it. Usually it's 2 and out. Sometimes, with Jimmy Carter, it's 1 and out, so 3 is unlikely, is unusual.

The second thing her own campaign worries about, and they'll tell you this, is the amount of damage inflicted by Bernie Sanders. I know they had an event last week. I thought it was kind of awkward, they had to do it, but I think that Bernie Sanders has planted a seed among all of his young supporters, among everyone on the left, that Hillary Clinton is the candidate from Goldman Sachs. That she's the candidate from Wall Street, and that's not a good place to being 2016, considering the deep antipathy toward Wall Street by, especially young people, especially by people on the left. I think he's created an image of her that's going to make it difficult.

A third thing, and I've said this, I've got some friends here who have heard me speak earlier in the year, and I've been saying this for a while, a third thing that could hurt her, and makes her not a shoe in to win, is Bill. A blessing and a curse in my opinion. He's loved by the base in the party, but he has flaws. He often says things that have to be corrected. That outrageous visit he paid Loretta Lynch on the tarmac in Phoenix was, I'm sure he slept on the sofa for a few nights after that. Then, I don't want to be a wise guy, but we have to talk about this, then there's Bill Clinton's sexual history, which is going to be a serious issue. I'm told by people who know the family, that he's no longer dating. I think that's a good thing. Pleased to see that.

AT the same time, there's no doubt in my mind that Trump will make an issue of this. In fact, in Cleveland, I think it's Tuesday night or Wednesday, Tuesday night's going to be Benghazi night, Wednesday night's going to be Bill Clinton's sexual misconduct night. There's going to be people talking about this, I'm sure it will be cringe inducing, but he's playing to his base. I think there's a serious purpose here, and that is that she needs to get an overwhelming majority of college educated professional women to support her. I think that Trump will make the case that, not only did she look the other way with Bill, but that she enabled him. I think that's going to be a powerful argument that they won't let go of. That's a third thing that makes her less than a shoe in in my opinion.

A fourth thing is two or three really damning things in the polls. Let me digress for one minute. I'm not sure how much I take the polls literally. I think it's been a bad stretch for poll takers. They got Brexit wrong in England. They get a lot of stuff wrong. Everyone points to the inability of poll takers to adequately handicap turnout. That's a problem. Everyone talks about this issue of cell phones versus land lines. Hard to maybe get a representative sample because so few people under the age of 80 just have a land line only, but the big issue though is this, and the poll takers will tell you, if you hold a controversial view, like I want to get out of the EEU. I want to support Donald Trump or whatever. Are you going to tell a total stranger who calls you up on the phone how you feel about these issues? I'm not sure I believe the polls very much.

Just a final comment on polls before we get back to Hillary, if you're a political junky, like I am, the only poll that I really pay a lot of attention to is [realclearpolitics.com](http://realclearpolitics.com). They have a great website and every day in the upper right hand corner, they have a conglomeration of all the polls. They take every poll out there and they put it together for one number. I think this morning she was up by 4.4 points, something like that. I do look at that.

Getting back to the polls, her own campaign worries that she has not pulled away in Ohio, Michigan, Pennsylvania. They're very concerned about that. They're really concerned about findings on her positives and negatives. Her negative rating is up in the high 50's. Now, Donald Trump has the highest negatives in the history of American politics. He's close to 70%, and I with some groups, African American's, Hispanics, I think the Zika virus is more popular than Donald Trump. Any politician who is in the high 50's like she is has to be concerned. More importantly, there are polls out that show the public doesn't trust her by a majority of 2 to 1. How do you get elected president if the majority of the public doesn't trust you. You have to run against someone even worse I guess, but that's a real problem and her campaign and she are aware of this.

Then the fifth problem, maybe the most serious of all, is the continued scandals, controversies that will dog her between now and November and I'm sure beyond. The first is Benghazi. I think she'll be able to finesse it. She has so far. I appreciate there's another narrative, a different narrative from hers, but she'll probably get by on that. Another one, which I think is a sleeper, is the Clinton Foundation. I have a lot of friends who are reporters who are still digging furiously for stories. There's a myth that the press and the Clinton's are in bed together. Nothing could be further from the truth. There's deep suspicion on both parties when it comes to Clinton's and the media. I think the press will continue to look for stories showing that there was a quid pro quo with the Clinton Foundation and wealthy donors. You give us money and we will give you something in return, access, favors, whatever, and I think you'll see more stories on that.

Third and finally is the ongoing story of the email. I thought all along that there was maybe only a 25% chance that she would get indicted, but this is, what's the

phrase, a Pyrrhic victory? She won, she didn't get indicted, but at the same time I think that Comey, the director of the FBI, inflicted really major damage on her. He basically said she lied in her public pronouncements. Maybe not to the FBI. We don't know about congress, although congress will pursue whether a perjury charge is appropriate, they're not going to let that one go, but I think for most normal American's who paid a little bit of attention to Comey, it was quite clear she was reckless, she was careless and she was not truthful as Comey stated quite emphatically. This is going to stay with her for a while. I don't think ... There's a private lawsuit proceeding by a conservative group that will keep this story in the lime light. You add all of this up, and I would come to the conclusion that, at best, she is a shaky, a very shaky front runner. The only reason she's shaky is because Trump of course, is so provocative in so many ways.

Let me talk a little bit about what all of this would mean for investors. First of all, there's only 3 scenarios that I can see in this election. The first scenario, and probably the one the markets could live with the best, would be a very narrow Hillary Clinton win, but that keeps congress divided. You wouldn't see the house flip back to the democrats. It would take a huge landslide for that to happen. Maybe the senate flips, maybe it doesn't, but if she won narrowly with a divided congress, the markets, in my opinion, could live with that. That's still probably the most likely scenario.

The second scenario would be if she won in a landslide, 60, 40. The markets, I think, would worry that you'd have a Troika of Hillary Clinton, Nancy Pelosi, who might come back in the house, and Chuck Schumer who takes over for Harry Reid. That's not a troika the markets would be pleased to see. The final scenario, of course, would be a Trump victory, which brings lots and lots of issues. Let's talk about both of them and what some of the implications would be if they won. Let me start with Trump.

As all of my friends here know, that markets hate uncertainty. Bill and his colleagues are well aware that markets hate uncertainty. Trump would be the mother of all uncertainties if he were elected, on many fronts. I'll give you 4 things the markets would worry about, but I want to be fair. I'll give you one area where I think he could play a positive role. First of all, in terms of what the markets would worry about, he has virtually promised a trade war with China. I'd be the first to admit, the Chinese don't play fair, they hack into all of our companies, they treat their dissidents poorly, they're more militaristic now in Southeast Asia. I get that, but I think the financial markets would be very concerned at the prospects of a trade war in early 2017 between the two biggest economies in the world. I think that's the first thing, and he could do this without getting congressional approval. He could site the Chinese for unfair subsidies, or steal, whatever, and begin retaliating.

Second thing that I think the markets would worry about is his alliance with many people who want to dramatically change the federal reserve. Is the Fed too imperious, is the Fed too transparent, is the Fed too arrogant? Yeah, I think so. I

question how well they've communicated in the last couple of years, but if Trump aligns himself more with people who want to strip the Fed of some of its authority, that could set up a clash between a new president, and Janet Yellen, and I don't think the markets would like that either.

A third thing would be that he has not been able to explain at all how he'd pay for all the things he wants to do. A wall, well, I don't think it's going to be built. I certainly don't think the Mexican's are going to pay for it. I would say much more money for defense, for the VA, all of his spending proposal, a tax cut, that every estimate has shown would cost about \$10 trillion, with a "T", over the next 10 years. A mammoth tax cut, and he can't explain how he's pay for it, other than to say, the oldest cliché in politics and I've been around for a while, he said "We're going to get rid of waste, fraud and abuse." Whenever you hear a politician say that, you know that he or she has no clue how they're really going to reduce the deficit. That's another issue.

Finally is the issue for the markets, just about his rhetoric toward the markets. He's been quite critical of Wall Street, indicating he might want to really curve some Wall Street tax breaks, regulate Wall Street more aggressively, I think that creates some uncertainty and anxiety as well. To be fair, there is one issue that has to be addressed. I would argue, the most pressing, domestic economic issue in the country is our incredibly, impossibly difficult, impenetrable tax code. I think that the stars are going to be in alignment in 2017, finally, for tax reform. I think he would be a positive catalyst in getting ... He needs a deal. If he's elected, he wants a deal in 2017. I think Hillary would too. They'll be working with Paul Ryan, who I think unquestionably is going to run for president in 2020, Ryan wants a deal.

Then you have in the senate, finally the resignation of maybe the most obstructionist senator I've seen in my entire career, that's Harry Reid, who's retiring, to be replaced by the ultimate wheel or dealer, Chuck Schumer from Brooklyn. I've been in the halls of congress, I've seen Schumer in the hallways with a cell phone in both ears, right out of a house of cards. Chuck Schumer loves to wheel and deal, so I think there's a decent chance next year, and Trump would be part of this, that we could finally get some tax reform, especially tax reform on the international side that would bring with it, something called repatriation. US firms, drug companies, tech companies, would be able to bring back profits they've stashed in Europe at a very low rate, 7 or 8%, would be good for those sectors, drugs and tech, it also would give a lot of extra money to the government for infrastructure, for highways, bridges, dams. There would be a lot of money directed there. It would be a huge story for caterpillar, a lot of the big construction companies. I think Trump would be positive in that regard, but I do see a lot of uncertainties.

What if Hillary wins? What are the implications for the markets if she were to win? First of all, I think the likely scenario is that the house does stay republican. It's pretty hard for me to see a 30 seat swing, not the way all these districts are now gerrymandered. Both parties do it, but it's awfully hard to have a huge change right

now in the house. I think Paul Ryan would thwart much of her agenda, just as Newt Gingrich thwarted much of Bill Clinton's agenda 12 or 13 years ago, but it's to me, too simple to say nothing would be different. That she wouldn't be able to get anything done. I want to give you three examples of how a president can actually get some things done, even if he or she does not have control of both houses.

The first would be, in my opinion, a continuation of this incredible string of regulations. I wrote a piece the other day titled "Governing by Regulation." Every time you turn around there's a new regulation, over time hours, corporate tax inversion deals, now I'm told that there's going to be new regulations on the amount of salt in our diet. Everywhere you look, there's new regulations and I think she would continue that if she thought she couldn't get much through congress. The area I would be concerned about as an investor would be the drug stocks. She's been quite outspoken that drug prices are way too high and she might try through regulation to curb the price of drugs.

A second thing she could do would continue a trend that frankly I don't like, and that is presidents who want to commit US troops abroad, just do it. They do it unilaterally, without congressional approval because as we know, congress couldn't agree on a resolution in favor of mother's day. You have a situation where the last two presidents have committed troops. I personally think she would be quite Hawkish on defense, I joke, I think she's got more testosterone than Barack Obama. I think she would be a far stronger supporter of Israel. I think she'd be willing to commit troops. Frankly, and sadly, because of her gender I think she might get tested early. I think therefore a contrarian investment play would be the defense stocks. I think the defense stocks would do just fine with her. They might do all right with Trump, although he's been very inconsistent on what he would do geopolitically. That's an area where he did not help himself that much with Mike Pence.

The third area where she would have a huge influence is one that, in my opinion is the most important of all. I have nieces and nephews and they've asked me over the last 20 or 30 years, "Why should we bother to vote? It doesn't make any difference who we vote for." I said, "Oh yes it does, if for no other reason than the supreme court." Hillary Clinton would have the opportunity to nominate two or three supreme court justices. In my opinion. First of all, I'm not sure that she'd keep this fellow Garland who's 63 and a moderate, she might say I have someone who is 43 and a little more liberal than Merit Garland. Beyond that, the other day I Googled the ages of the Supreme Court justices. You've got Ruth Bader Ginsberg, controversial this week, who's 83, battling pancreatic cancer. You've got Kennedy, the great swing jurist, who's about to turn 80 this summer. You've got Steven Breyer, who's 78. You've got Clarence Thomas, who's 67. She might have an opportunity to nominate two or three justices and send those nominations to a senate that could flip back to the democrats this fall. She will have some impact. It's not as if there would be no impact at all, and those are three very big examples that probably would be part of the debate as we go into the fall.

Final thing I want to talk to you about, again, if Bill is kind enough to grant me the ability to just rant for 5 or 6 minutes about what I think is a really shockingly, un-serious election. We've got all these big issues, so what do we hear people talk about? The candidates spouses, body parts, sex affairs, it's an embarrassment. It's a juvenile campaign that's only going to get worse, especially when it comes to Bill's activities. I look at, at the same time, all of these big issues that nobody wants to touch. Maybe they're radioactive. Maybe they're too difficult to address. I could keep you here until ten, I won't, but I'll give you three of many issues I think need to be discussed. The country has to have a discussion on these three issues, or some kind of action.

The first, on the social side, you could pick many, there's a lot of issues right now that are in the limelight, but the one that I would point to that hasn't been meaningfully addresses, is if you went to where I grew up, in northern New England, if you went to New Hampshire, or Maine, or Vermont or upstate New York and you ask people in little cities and towns, what's the biggest issue in your life? I guarantee you they'll say heroine and Fentanyl. I guarantee it. All these little towns in New England, Manchester, New Hampshire, about 15 miles from where I grew up has the highest per capita level of heroine overdoses in any city in America. I don't hear anyone talking about that. There was a modest bill that passed a few days ago, woefully inadequate. Nobody wants to deal with this issue, first of all.

Second of all, I would say that, while I'm a firm believer that ISIS has been pushed back significantly on the battle field, I think its gotten shockingly little attention to see how ISIS is being driven out of big Iraqi cities. There's still an issue in that part of the world that people have to start thinking about, and that's the risk of nuclear proliferation among all of these countries. The Saudi's are convinced that Iran is building a bomb, and they may be, they've got a lot of money in this deal that was approved a year or so ago. The Saudi's are saying, "We want a bomb." The Turk's are going to say "Well, we want a bomb." Then you've got the United Arab Emirates that would want a bomb. Then you'd have to say there's a country in the neighborhood, Pakistan, that by most estimates has 125 nuclear bombs. This is a really serious issue. The issue of nuclear proliferation. Is anyone talking about that in this campaign? You've got to be kidding me, that anyone would go into an issue that's that deep into the weeds, even though it has huge implications for our way of life in the next decade.

Finally, the third issue, that probably riles me the most because for a living I follow the economy and economic policy, is that we as a country have made promises we can't keep. Look at Puerto Rico. Look at Detroit. Then I always have my favorite whipping boy, and that is the most dysfunctional city, in the most dysfunctional state in America, I refer obviously to Chicago, Illinois. Overrun by gun violence, but a place where they can't pay for all the promises that have been made. What do we hear on the campaign trail this year? Everyone wants to spend more. Trump wants to spend more, he doesn't know how he's pay for it. Hillary Clinton has a tax break for every problem you might have in your life. If you have dandruff, I think she's got a tax credit that you could use, none of this is paid for. No one is talking about any

kind of fiscal restraint. No one is talking about the ticking time bomb that is entitlements. We're lucky, the budget deficit has dropped dramatically. We've got another 2 or 3 years before it starts to really tick up as we all get older, but we have to start having an adult conversation about entitlement, Social Security, Medicare, Medicaid, and nobody dares to do it.

I'll just finish with a couple of anecdotes about this,. The first is, if you've got a slow Wednesday afternoon and it's raining, log on to congressional budget office, CBO.gov. They have tables, assumptions for ten years from now. In the summer of 2026, ten years from now, net borrowing costs will exceed all domestic spending. Just think about that, and that's assuming a treasury ten year bond yield of 4%. Net borrowing costs will exceed all domestic spending. The other thing that I would just point out is, many months ago I took a group of clients and friends, a small group, to see Ryan. I'm a fan of Paul Ryan. I think he's a good guy. I think he wants to do the right thing. When we left we all said, "Oh now we get it. Now we know why Mitt Romney picked this guy. He's that good."

He made an impassioned plea in this meeting, to at least begin looking at the COLA's, the cost of living adjustments, maybe recalculate the CPI, maybe begin to have some reform of entitlements. We left, and after this meeting we told a lot of our friends on capital hill. In both parties, they all went shh, shh. We're not going to talk about that. It's an election year. We want to win Florida. The idea of winning Florida takes much greater precedence than even beginning to look at any kind of reform on entitlements. As John Kennedy once famously said, "It's a lot easier to fix the roof when it's sunny than when it's raining", but I'm afraid we're going to wait until it's raining on some of these issues because nobody dares to talk about it in this very un-serious election. Let me close with ...

I don't want to close with a buzz kill like that, so let me just close with this thought. To me the answer is fairly simple. It's not a lot higher taxes. I don't think that's going to help. It's no, certainly a need to act spending cuts. Domestic spending has been cut dramatically. Domestic spending has been virtually flat for the last decade. The answer is stronger economic growth. Hello. Why people aren't talking more about, here I am bragging we're going to grow by 2 point 5 percent. Big deal. I'd like to see us grow by 3% or 3 and a half percent. Stronger growth won't eliminate the deficit, but it will make it much more manageable for the bond market. I think if you want stronger growth, you've got to look at tax reform, regulatory reform, maybe some tax cuts in the sort run. There are things that can be done, but why again, in this election we're not having more people talk about getting the growth rate up is an enduring mystery for me.

Thankfully, final point, I promise, thankfully, we do have the most powerful person in DC who gets it, and that's Janet Yellen. I think she is going to keep her, the pedal to the metal for as long as she can. We were talking earlier that you can't fight the Fed. It's futile, resistance is futile if you really want to fight the Fed. I think Janet Yellen and the Fed are determined to keep policies very accommodative, and I think that's one of the reasons we see the stock market, tonight, at an all-time high.

On that positive note, I'm going to stop. I'd love to take questions, disagreements, arguments. Yes, sir? We've got a couple of colleagues who are going to help moderate. We've got somebody, just give us one second. We've got somebody ...

Speaker 3: Can you give us a comment or two on Brexit and how that unwinding of the European union may or may not impact us?

Greg Valliere: The good news is, the markets got over it pretty quickly. I'll give you the bad news first and then the good news. I think the bad news is, you can't rule out, on the continent, new crisis. Italy may have a referendum in October on this, that could be a blow to the ruling party. Italian banks have some problems. Then of course there's France, where the last polls I've seen show 57, 58% of the people want to get out of the European union. The experience in London may have sobered people and it may have been a cautionary tale not to do it. I think there will probably still be more disruptions. On the positive side, there was a great piece today in the Wall Street Journal or the New York Times, I forget which, about how there are non-EU countries that are doing just fine.

I forget if it was Sweden or Norway, but they're fine. You can cut ... This new Prime Minister, May is her name, who I think may be a pleasant surprise, I think will be able to cut trade deals to keep English economy in reasonably good shape. It complicates everything obviously. I don't see this as a death now. I will give you my bias, and I don't want to be in conflict with you guys, but my bias is the US is still the safest place to invest, despite Trump verses Hillary and all this stuff. I think that the US is still the most sound place to invest. You see it now in our Treasury market, we see it now in our stock market, and even if there are these disruptions in Europe, I don't think they'll be critical for the US.

I'll let you recognize the people, I don't know. I'm sure you know all these folks.  
Yup.

Speaker 4: Can you comment on negative interest rates that we're seeing in Japan and many of the European countries, is that coming over here to America?

Greg Valliere: I don't see it. Maybe you guys have a different take, but my take is that the Fed would have ... If the economy were to suddenly tank, and I think we're going in the opposite direction, but if the economy were to suddenly tank, the Fed has two last ditch life preservers. One would be to do QE4, more quantitative easing, but their balance sheet's too high. The balance sheet is \$4 trillion. That's going to be tough enough to unwind. I don't think there are many people at the Fed who would want to take that route. You can make a case that while QE1 worked, QE2 maybe, QE3 was not that effective. The second option would be negative interest rates, to charge banks to park their money at the Fed. Yellen has testified, she's not sure she has the authority to do that. I think that's an important point.

I think the Fed is at best and bivalent, they'll look at all options, but I don't think that's an option they'll consider anytime soon. In fact, if forced to wager, I would

wager we get another rate hike this year. I'm not sure when. I don't think it's in July. I don't think it's, probably not in September before the election. Maybe in December. I think the economy is growing efficiently, so she can very gradually take the training wheels off the economy. I'd be more inclined to think we'd get a gradual hike in rates rather than some of these extraordinary actions. I think the chances are very slim.

Other questions? Let me look over ...

Speaker 5: Would you comment on what your thoughts are regarding a democratic president in a republican congress with regard to the state of the economy, and as investors what we can look forward to?

Greg Valliere: I understand around, that's a good question, and I understand around the country a lot of people are sick of the gridlock. It looks like they're going home tonight for a seven week vacation without coming to any agreement on a bill to deal with the Zika virus. There you have it, congress can't even agree on the Zika virus. It's maddening to see this kind of gridlock, but at the same time, when it comes to a lot of economic policies, the markets don't mind gridlock. As one of my clients in New York said "If there's gridlock it means they do less harm on the economy." I think you could make a case that you don't want to see big tax hikes, a lot of democrats might on the very wealthy, you don't want to see a huge surge of spending. A lot of republicans don't want that. They sort of negate each other out. What I tell investor groups, and I'm sure you guys do as well, is that try to shut out all of this background noise.

I have made a vow not to watch CNBC very much because they scream and yell too much, first of all, and I know a lot of people there and they don't like it either. When I see Rick Santelli my first impulse is to hit the mute button, but there's all this cacophony from congress on all of these issues that is sometimes just background noise. I think the idea of divided government means ... If one party controlled everything, I do think the markets would worry about things getting unbalanced. I think the likely scenario is that one party will not control everything.

Speaker 6: Question here.

Greg Valliere: Yeah.

Speaker 6: Could you comment on, what actually is the Federal Reserve, and second, if Trump doesn't get the delegates on the first vote, and we see a Romney or a Cruz come along, what might that mean to investors?

Greg Valliere: The Federal Reserve was created in 1912, where there was a need. Long tortured history, Andrew Jackson didn't want it and as we got into the last century there finally was the creation of a Federal Reserve to provide liquidity, to lubricate the economy, to keep banks afloat. They have a mandate, a legal mandate to do only two things. That is to maintain stable inflation and to maintain a stable and

hopefully full employment rate. That's it. One of the Fed governors, I don't think it was Esther George who's from here, but one of the Fed governors recently said "Sure looks to me like there's a third mandate, that we can't upset global markets. That sort of snuck in there. That of course has been a major reason why Janet Yellen has been reluctant to raise rates because she doesn't want to unnerve these very fragile markets. That's a noble goal, but it was never part of their mandate. That's a controversial subject, that the Fed is sort of subsidizing markets around the world because we don't want to see markets go down sharply which could lead to cotangent. I think Yellen, she would never say this in public, but I think Yellen sort of has a third mandate now in addition to the other two.

If Trump were to be denied in Chicago. This morning I thought it was maybe 20%, tonight I'm down to about 10% after Mike Pence, but if Trump were denied on the first ballot, then you'd have to look at the second place finisher, who's Ted Cruz. There are a lot of people who respect his love of the constitution. He's very very conservative on most issues, but he's not the most warm and cuddly guys in the world. Go back to Bob Dole, who's one of the funniest people I've ever known. Dole was asked by the press what he thought of Cruz, this was a few months ago, typical Bob Dole, he said "Nobody likes him." That was his answer. If it's not Cruz, man. Mitt Romney, the party would rebel, the base of the party would rebel. No, I cannot see anyone who comes to mind who could, at one point I thought Paul Ryan could, but I think that a lot of conservatives, and there's a ton of American's who every day listen to Rush Limbaugh, and Laura Ingram and Michael Savage, they don't like Paul Ryan. They don't like Mitch McConnell who's going to speak, and I cannot wait to see if the delegates boo or applaud Mitch McConnell.

No. I think that it's going to, if, by some miracle, Trump was denied on the first ballot, I think they probably would look at Cruz, who very cleverly has not thrown in the towel, he has not endorsed anyone and he's held on to his delegates. We shall see. I just don't think it's going to happen.

Maybe some on this side, I keep looking ... Let's see if we've got any over here.

Speaker 7: We have a recovering economy, I think you said around 2%.

Greg Valliere: I'm sorry?

Speaker 7: We have a recovering economy going on right now, but through the media we hear people say that it's not recovering fast enough. How much of that is caused, if any, by our becoming more of a service economy than we have been a manufacturing economy?

Greg Valliere: Our industrial base has withered. It began in 1949. The peak of industrial jobs has decreased every year since 1949. When I hear Trump say he's going to bring these jobs, he's not going to bring shoe manufacturing jobs back to Maine, or furniture manufacturing jobs back to North Carolina. Those jobs are gone forever. We can adapt. We can have a service economy. Again, I would point only to the South Bay

in San Francisco, around San Jose and Silicon Valley. There's an acute labor shortage there. There are many parts of the service economy that are growing like gang busters. High tech industry. Every kid in the world wants to come to America to go to college. There are lots of things where we clearly are dominant. You guys might want to throw in some other areas that you like where the US economy, yes, manufacturing, steel manufacturing jobs are gone from Pennsylvania, but there are other areas of the economy that are doing quite well.

Speaker 7: That's right. We follow the unemployment markets very very closely because we look at what drives the economy in the United States, and it's the consumer. Two thirds of what the US produces is driven by consumption. We have a service based economy here. Looking at where the biggest issues that corporations tell us today, it's lack of quality labor. That's a good sign. That tells us that they are anticipating on spending more on benefits and on ages, and we're seeing that data come through. Wages are increasing.

Greg Valliere: I thought I would just add, this week, in the New York Times, there was a column by Jamie Diamond, who's the head of J. P Morgan, Chase, right? He talked about giving his employees a salary increase and you're starting to see that. You're starting to see wages pick u, which to me, reinforces this argument that real disposable income is going to drive the economy quite nicely.

Speaker 7: That's right, and actually, we didn't adopt this at Keen Wealth, but Jamie Diamond at J. P. Morgan also went business casual, so maybe that might attract some of this young talent that we're looking for.

Greg Valliere: There's a hand back there too.

Speaker 8: You talk about the service economy, are you referring also to McDonald's and Chick Filet where they're going to start getting \$15 an hour. They really put themselves out of the market I would think.

Greg Valliere: At some point something has to give. Could it be corporate profits, maybe. Or could it be inflation taking up? We could argue to midnight whether raising minimum wage kills jobs or not. I've seen studies on both sides, but there's pretty much agreement, that raising minimum wage has a rippled effect. People who are making just a little over minimum wage, they want an increase. The studies would show that it does lead to some uptick in inflation. I have a cardinal rule that I don't overreact to one number, but this morning's PPI number was up 0.5%. That was far more than the markets expected. I think a little whiff of inflation is good, I think a deeply inhaling inflation is not good. I do think one of the things that, maybe in the next year you guys and all of us will have to start looking at, is maybe inflation start to finally tick up a little bit.

Speaker 9: Going back to your comment on bipartisan gridlock. I'd be curious on your thoughts on a viable third party and if, is there anybody out there a Colin Powellesque that could just come out of nowhere that could just change this race?

Greg Valliere:

That's a great question. I travel all around the country and that's always one of the first questions I get. This is the choice? There's no one else? This is what we're stuck with here? People really do have this thirst for a third party. There are two other parties. One is the Libertarian party, headed by a very charming guy who's good on TV, named Gary Johnson I think his name is. He's also a big pot head. For many years he was an enthusiastic marijuana supporter who has promised that if elected, he will not smoke marijuana in the office. Considering he'd have the nuclear button near him, I think that's a good idea. But he could be a protest candidate who might get 5, or 6, or 7% in Colorado or Nevada, and look at Ralph Nader just getting a little bit in Florida in the year 2000. Then there's a woman named Stine, I forget her first name, she's the head of the green party, Jill Stine, thank you, who's scathing toward Bernie Sanders feeling like he's a traitor to the cause by luke warmly endorsing Hillary. Those other two parties could play a role.

Then you ask the more fundamental question. Is there a candidate who could be a plausible president. The answer was yes there was. That was Michael Bloomberg. Who for three terms governed well in an ungovernable city. Michael Bloomberg, I Googled him the other day. He is worth \$38 billion dollars. More I think than Bill if I'm not mistaken. He's worth \$38 billion dollars. He could spend 2 or 3 billion and it would be a rounding error. I'm not convinced Trump is very liquid. Michael Bloomberg is really liquid, he commissioned a study, some very bright people, whether it would make any sense for him to do this. I run into groups all the time that say you know, I'd take a look at Bloomberg, no. He's very very strong on gun control, that doesn't go over well in many parts of the country, he's a big supporter of Wall Street, which is not real popular in much of the country. He's a decisive leader. He looked at it and I think he said, he's 73, he doesn't look 73, he said at the age of 73 do I want to go through this endurance run of I couldn't get close to 270.

I don't think he could get 270. He could probably win New York, maybe win Massachusetts, New Jersey, maybe California, but I don't think he would get enough votes to win. It's tough. I always through out this trivia question. Lets see if anyone can get this trivia question. The last third party candidate to win even one state, anyone got a guess here? Most people say Perot who won 18% in the race where he was largely responsible for electing Bill Clinton when George Herbert Walker Bush lost his chance for reelection. The last time the third party candidate won one state was George Wallace in 1968, who won five states in the deep south in a really tumultuous year, one of the worst years in my lifetime as an American, but it was an election against Hubert Humphrey and Richard Nixon. Nixon won in '68. You've got to then go back to 1912 to see a third party candidate really really have a huge impact. That was Teddy Roosevelt, William Howard Taft and Woodrow Wilson and Woodrow Wilson won that election.

Its tough for a third party candidate to ... They could swing states. There's a freak that could happen, like Florida in 2000. Sadly, I have to tell you, I do not see anyone out there who we could say, let's nominate him or her, and it's almost too late now. Let's say Hillary had been indicted, would Joe Biden have jumped in in some

states, filing deadlines are starting to come right away. So, no, I'm sad to say we're stuck with the two we've got unfortunately.

Other questions?

Speaker 10: With being stuck with the two we've got, my question is, you mentioned earlier how the polls are no longer sufficient and they're frivolous. So how do the polls effect the average American that may not know what to do. My sense is so many people are throwing their hands up, what do we do in this crisis? When we see the polls and we see how the various constituents use the polls to their advantage, what is your commentary on the polls?

Greg Valliere: The polls are all part of this perfect storm of things that make our system difficult. I got here early tonight and I watched the ads on TV. There's an attorney general race in Kansas, oh my god. You get nothing but negative ads. My opponent kills puppies, no my opponent kills kittens. It's an embarrassment to watch these ads that I'm sure you guys have all seen for the last week or two. That's now part of the way we elect people. I could go onto a long rant, but I haven't had a drink yet tonight, about the campaign finance system, which is totally corrupt. Let me just rest for one minute. I know a lot of members of congress and everyone I've ever known or met in congress was decent, hard working, religious, patriotic, monogamous, they really want to do the right thing.

First and foremost, they really wanted to do the right thing, but they're stuck in a rotten system that forces them to grovel constantly for money. If you win your house seat on November 8, by November 15, you're already begging for money for your next race. You've got to run all these damned ads on TV because the other guy or the other gal is running all these damned ads on TV. It's a system that is broken on my opinion. I don't have a magic answer to how to fix it, but it's extremely frustrating for an awful lot of really sincerely decent people who want to make thing ... They hear from people like you. They know how people feel, but it's hard to get something done in a system that is so reliant I groveling for money and taking increasingly rigid positions to satisfy people who gave you the money. It's a real problem.

I think we have time for one more, one or two more guys.

Speaker 11: First, thank you for a good talk.

Greg Valliere: Thank you.

Speaker 11: You mentioned the debt and the amount of interest on it and the portion of the budget to was going to be. What would you offer as a solution to that?

Greg Valliere: That's a very difficult question to answer, and I'm sure you guys grapple with it. As we get older, entitlement costs are going to grow exponentially. As we get into the next decade, and again, the next couple of years I'm quite bullish on economic

fundamentals. I think you have to be when you look at where the economy is right now. I think if there's an answer it's two fold. Number one, the central bankers may keep interest rates low because borrowing costs would look better if rates were low, number one. Number two is, again I keep going back to this theme like a broken record of stronger economic growth. These assumptions, these dire assumptions from the congressional budget office, which in fairness can't get this year right, let alone ten years from now right. These assumptions are based on pretty conservative growth estimates. Maybe we have another decade like the one where we had the computer revolution, the productivity revolution.

There could be other things that would come along, whether it's energy, high tech, whatever. I think stronger growth cures a lot of ills. It doesn't solve everything, but stronger growth to me would be the far more palatable option than saying "oh, we got to raise the day lights out of taxes on everybody." By the way, I don't see any tax hikes coming for all of you as investors, because they would never get through the house of representatives. They would die in the house of representatives. Or, people say "Let's just cut the day lights out of spending." As I've said earlier, we've cut spending quite a bit and we probably will spend more on defense. The answer, by default is stronger growth. I think that's where we got to look and I wish more people talked about it.

Speaker 12: To your point too, on that repatriation that you mentioned earlier, there's \$2.1 trillion in corporate profits sitting overseas. That's an easy solution to bring that money over here. Anything that's going to spur the economy, it's going to be driven by corporations and consumers, it's not government spending. We've seen that happen with what the Federal Reserve's done, with easy rates, and pumping money into the system, we thought it would just lead to hyperinflation, and it never happened. That money just sat in the banking system and sat there. That \$2.1 trillion is sitting there and I think ...

Greg Valliere: That's some serious money and if we bring that back to the US, I think this is going to be the big legislative story of 2017. Regardless of who wins. I think it will be a really positive story.

Speaker 12: Could you comment on possible entitlement reforms that we could see. What would happen to social security and possible Medicare?

Greg Valliere: Frankly, I don't see it anytime soon because the markets are so fat and happy. What's the ten year bond yield now, 1.4. We got a 1.4% bond yield, the stock markets at an all-time high. There's no angry market saying "For God sake, would you guys please do something?" I'll age myself, date myself, but 20, 30 years ago everyone talked about the bond market vigilantes, who would drive rates higher if we had deficit spending. We've had plenty of deficit spending and rates keep going lower. I don't see an angry market demanding action, and in a typical Washington fashion, we will not address this problem until it's imminent. We'll wait unfortunately.

Maybe one more I'm having a great time by the way. Let me get one more question.

Speaker 13: As a follow on to Matt's question, I might ask about health care. It's a huge topic for our clients, especially our retired clients, but all of our clients, specifically Obamacare?

Greg Valliere: A lot of people don't like my answer on this question, but I cannot always give answers that people like. I think Obamacare is here to stay. I think the republicans who promised their constituents they were going to kill it did a disservice. No wonder you have angry constituents, you promised to do something. Mitch McConnell and John Boehner didn't have the votes to kill Obamacare. If you can add you realized that. They didn't have enough votes to override and Obama veto, so Obamacare stays. Now you hear Trump and others say "We're going to kill it." I'm not persuaded. First of all, you'd need 60 votes in the senate to get anything like that done, that's not going to happen. Second of all, I'm still not aware of an alternative they have, rather than don't get sick. I don't see an alternative that can be easily explained to ... I should say in all seriousness, Ryan and others do have a plan that deals with tax incentives, there are ways to look at malpractice, there are ways that you could perhaps reform health, but I think the basic Obamacare is here to stay.

The supreme court basically has upheld it twice now, and one of the reasons why Roberts is hated by a lot of conservatives. We may tinker with it. I think the Cadillacs tax is dead, for more than just another year. I think the device tax is dead, they killed that temporarily I'm not sure that will come back. You can tinker around the edges with Obamacare, but unless there's a compellingly better alternative, I think it's here to stay.

Speaker 13: Don't shoot the messenger.

Greg Valliere: Let's see, maybe one more. Then we'll let everybody ... We'll do a benediction and see if we got one more, yes.

Speaker 14: I'm just curious. You mentioned the juvenile campaign that's going on and the things that they're debating. What do you feel like should really be a long term vision coming from our leaders right now?

Greg Valliere: That's a great question to end on and I'm fundamentally an optimist who tries to see the glass half full. I do think that most everyone in government does want to do the right thing. I really, firmly believe that. We all, I think agree, there's a great threat to our way of life, and we can't be naïve about ISIS and Islamic terrorism. That's an enormous threat. I would like to see more of a consensus on these issues. I'd like to see more people in congress willing to deal with the other side on these issues that are so important to our way of life.

There are people like that. There's a senator named Bob Corker from Tennessee

who would cut a deal. There are democrats also. In the old days we had Dick Luger and Evan Bye. Evan Bye is coming back to the senate as you know, I think, I think he's going to get elected. I think we have to lean on more people to try to compromise and get more things done.

I wish I could tell you that that's imminent. That that's going to happen quickly. I will say this. I think we need some leadership at the top. Obama, I think is a decent man. I think he doesn't have the DNA to be politically skilled like Bill Clinton or Ronald Regan or LBJ who could get deals done. I think that leadership is important. I'm not sure if Hillary is the answer. I'm not sure if Trump is the answer. Both have deep flaws. I think we'd all agree.

Unfortunately, this polarization, even though we all agree on the basic goals we have as a country, I see this polarization not ending anytime soon. I'm sorry, but I would be naïve to hope otherwise, even though there are a lot of good people in the process.

You have been a wonderful audience. Thank you all very much. Thank you.

Bill Keen: Greg, thank you for your time. Thank you for your time. Greg Valliere.

We make it a principle of the firm to put ourselves around what we believe to be some of the best research and the best minds that we can. I think Mr. Valliere held true to that tonight. With that in mind I hope you all had a nice time. I'm deeply grateful for you all coming out and grateful for Greg, you making the trip to Kansas City.

Greg Valliere: Thank you.