



OAKWORTH
CAPITAL BANK

COMMON CENTS

With what I am about to write, you might think I woke up this morning in a bad mood, but I am not. The sun came up in the East, and I am standing on the right side of the Earth. Yeah, I feel pretty good, great even. I won't lie; getting back to the standard routine of work has been, strangely enough, relaxing. Perhaps I am wired a little too tightly.

With that said, you could have knocked me over with a feather, a small one at that, this week when I read one of the first things the new Congress, the GOP controlled Congress, did was to attempt to overhaul the Office of Congressional Ethics. As the *Wall Street Journal* reported first thing on Tuesday 1/3/2017:

“House Republicans are moving to eliminate the independence of the Office of Congressional Ethics, the chamber’s nonpartisan ethics board, in a move that has triggered swift pushback from Democrats and government watchdog groups.

‘Democrats created the Office of Congressional Ethics in March 2008, after they took control of Congress in 2007, saying they wanted to help clean up Congress and make the ethics process more transparent. If the office believes it has found violations, its job is to recommend a formal investigation by the traditional House Ethics Committee.

Lawmakers who found themselves under review by the Office of Congressional Ethics criticized the office for being too aggressive. Those who were cleared said it was unfair that the existence of investigations became public and that reputations could be tarnished even when suspicions were unfounded.

Under Mr. Goodlatte’s [GOP] measure, the Ethics Committee would be able to direct the office to stop any of its investigations into possible lawmaker misconduct. The measure would reduce how much information could be made public about investigations. The office, to be renamed the Office of Congressional Complaint Review, wouldn’t be able to publicly release any of its findings unless authorized by the Ethics Committee, and it wouldn’t be allowed to employ a press spokesman.”

Okay, I will be the first, or among the first, to admit so-called watchdog groups can be a little overzealous AND it is always easier to find criticism in others’ actions than in your own. Better put, it is far easier to critique than to create. No argument. Trust me, over the 15 years I have written this newsletter, you may or may not believe the number of emails I have received informing me of a misspelled word or incorrect comma usage, that sort of thing.

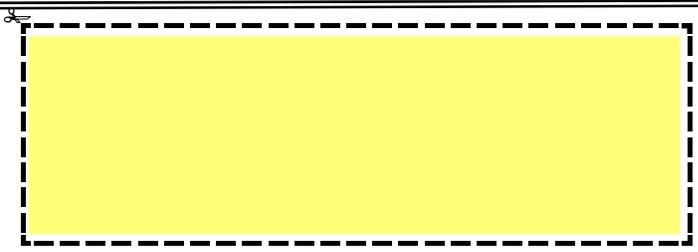
So, I believe it is understandable why the Congress would want to address this issue. Again, no argument. However, what is the old expression about timing, because I am too lazy to look it up?

To that end, Donald Trump was actually spot on target when he took the GOP to task over social media:

“With all that Congress has to work on, do they really have to make the weakening of

Inside this issue:

Something to Think About	1-3
Disclaimer	2



Something to Think About Cont.

the Independent Ethics Watchdog, as unfair as it is,” Mr. Trump said on Twitter Tuesday morning. Mr. Trump urged House Republicans to focus on issues “of far greater importance,” including an overhaul of the tax system and health-care law, adding a “drain the swamp” hashtag.’

After the ensuing brouhaha and public outcry, the GOP backed down on its original intentions, and shelved its overhaul of the ethics committee until a future date.

So, there is it is; I have written disparagingly of the GOP and commended Donald Trump. How is that for not pleasing anyone?

It would seem I am being far more political than typical, and I suppose I am. However, this has very practical economic and financial ramifications, and I won’t mince words. The sharp spike in the NFIB Small Business Optimism Index in November (from 94.9 in October to 98.4) had everything to do with the potential for significant changes in the tax and regulatory environments and had absolutely NOTHING to do with partisan political machinations and Washingtonian tit for tat. Nothing.

I would further argue the positive week we have had this week is undoubtedly due to foundations, endowments, pension plans, etc., rebalancing their portfolios to a new, higher equity target, as opposed to rebalancing back, for the very same reasons. Lower corporate taxes mean higher earnings per share which mean stock valuations get cheaper, so why not buy some more if you have been stuck at ‘neutral’ for the last couple of years? Indeed.

Now, I haven’t been bashful in saying the markets could go either way this year. Much depends on just how quickly and how aggressively Washington tackles the Byzantine tax code and increasingly burdensome regulatory environment. After all, at a trailing P/E multiple of 21.3, what has been stagnant or non-existent profit growth, modest/mediocre economic growth, and a Fed in tightening mode, well, stocks aren’t necessarily cheap.

Simply put, while nothing is impossible, the likelihood of continued ‘multiple expansion’ in the economic/financial environment I just described isn’t terribly great. In fact, I could make a better argument for multiple contraction in 2017 BUT FOR the potential of, again, significant changes in the tax and regulatory environments. In plain language, whether we have a good year (and potential very good) OR a flat year really hinges on what Washington does in the first couple months of the new Administration.

If the controlling GOP continues to play games like it did with the ethics committee stuff, investors could very likely take their proverbial ‘marbles and go home.’ If it focuses on repealing Obamacare to the exclusion of everything else, they will likely do the same thing. If Trump concentrates solely on his wall with Mexico and/or bowing up to the Chinese, guess what will happen? If this seems like a razor’s edge, so be it.

Now, please don’t take these comments as the markets are going to collapse this year; they shouldn’t. There will be plenty of liquidity and credit in the US financial system, regardless of whatever the Fed does. Stocks aren’t cheap (by any stretch of the imagination), but they aren’t outrageously expensive given the current and potential interest rate environment. I won’t bore you with more.

What I am trying to say is: we stand on the cusp of a potential double-digit year OR a completely forgettable one in the stock market. Which one it will be depends, almost completely, on the Congress and the Administration. That is why I found the GOP’s actions on Monday so stupefying and even depressing.

Admittedly, I don’t find politics or political gamesmanship interesting. Someone who does once told me it is analogous to a ‘chess match.’ Perhaps chess is intellectually stimulating with Bobby Fischer, Garry Kasparov, or Anatoly Karpov playing, but it probably isn’t with Harpo, Zeppo, and Groucho. Besides, I don’t find the Marx Brothers all that funny, if at all. I just don’t ‘get it,’ kind of like the appeal of politics.

Upon reading this, I realize I am coming across as a grump, a real grump. I apologize, because I am actually in a pretty good mood today, great even. However, I wasn’t earlier in the week when I read what the GOP had intended on doing. I was steamed, and it is a good thing I wasn’t writing this newsletter at that time. Trust me, I have calmed down on the matter.

Something to Think About Cont.

Hey, there is still plenty of time left for the Congress to make amends, as in a couple of weeks. Investors of every political inclination can only hope it completely goes against its nature, and decides to put the games and political machinations away.

So, let me leave you with this from Aesop:

A scorpion and a frog meet on the bank of a stream and the scorpion asks the frog to carry him across on its back. The frog asks, "How do I know you won't sting me?" The scorpion says, "Because if I do, I will die too."

The frog is satisfied, and they set out, but in midstream, the scorpion stings the frog. The frog feels the onset of paralysis and starts to sink, knowing they both will drown, but has just enough time to gasp "Why?"

Replies the scorpion: "Its my nature..."

If Washington can avoid being the scorpion in this fable, 2017 could be a good year in the markets. This week's actions haven't given any indication it can do so, but, again, it is still early yet.

Disclosure

This report does not constitute an offer to sell or a solicitation of an offer to buy or sell and securities. The public information contained in this report was obtained from sources and vendors deemed to be reliable, but it is not represented to be complete and its accuracy is not guaranteed.

This report is designed to provide an insightful and entertaining commentary on the investment markets and economy. The opinions expressed reflect the judgment of the author as of the date of publication and are subject to change without notice; they do not represent the official opinions of the author's employer unless clearly expressed within the document.

The opinions expressed within this report are those of John Norris as of the date listed on the first page of the document. They are subject to change without notice, and do not necessarily reflect the views of Oakworth Capital Bank, its directors, shareholders, and employees.