Cove Views

November 1, 2016

Dear Client,

There is a lot of excitement about the upcoming election and the impact it will have on the financial markets. We can't remember a time when the two leading candidates have been so diametrically opposed, and public opinion has been so bifurcated. As we speak to clients we sense an unease regarding the path the markets may take as a result of the election and so we have decided to take this opportunity to share our thoughts and ideas, in a politically neutral manner.

The markets do not like uncertainty and we are hoping that after the election things will begin to settle down and the markets will adjust to the outcome. The recent Brexit vote in England comes to mind. People weren't expecting British voters to approve leaving the European Union. The market was caught off guard, and the level of uncertainty was high. The immediate reaction of the equity market was to quickly move lower, but within a few days the market got used to the outcome, the uncertainty was reduced, volatility decreased and stocks continued on their merry way. **We anticipate some sort of a knee jerk reaction to the election but expect after the election things will calm down.** We continue to focus on microeconomic situations and are determined not to be distracted by the noise arising from the election.

The value proposition offered by the airline and automotive sectors continue to draw our attention. We are positioned for a rising interest rate environment, which has been painful so far, but we believe will ultimately pay off. When we mention rates we really should be mentioning short term rates, controlled by the Federal Reserve, verses long term interest rates which are primarily influenced by supply and demand. The fed continues to indicate a gradual path of raising short term rates. Long term rates have been drifting higher. For example the yield on the 10 year US Treasury note having reached a low of 1.36%, has lately climbed up to the 1.85% area. Likewise, sovereign bond interest rates globally have moved up in unison. US based banks would be huge beneficiaries of rising rates due to the expansion of their net interest margins and banking stocks have been doing better as of late. We have lightened up on the sector a little bit but continue to hold exposure (with the exception of our clients that work for banks and prefer not to hold bank stocks). Additionally, we are still focused on the aging population and seek to invest in innovative medical device companies.

Regardless of the outcome of the election there are three themes that we believe are common to both possible election outcomes. The first is our belief that the next US President will face increased military challenges and will be forced to increase our defense procurement level. We are facing a multitude of challenges from the likes of Russia, China, North Korea and others, as well as cyber challenges.

The second theme common to both candidates is the need to upgrade US infrastructure (i.e. roads, bridges, airports etc.). Both candidates have expressed this need. All parties seem to agree on this point.

Finally, we think there is a reasonable chance either candidate will propose a tax holiday (reduced tax rates) on cash held overseas by US companies. Cash balances held by US companies overseas is currently not taxed until it's repatriated to the US, then taxed at the corporate rate, as high as 35%. There is currently an amount estimated at over $2 trillion held overseas. Were a tax holiday (say 10% tax rate) enacted, many companies would bring cash back for dividends, stock repurchases, or other purposes.

We believe that our investors should continue saving to meet their long term needs and should not get too caught up in the rhetoric. We continue to focus on themes and companies we find value in such as industries that benefit from continued low energy prices, domestic industrial companies and companies that will benefit in a rising rate environment. Going forward we are looking for opportunities and entry points in the newer themes mentioned herein.

As always, we are interested to hear what clients think and welcome the opportunity to speak about any of these topics at any time.

Thank you for your continued trust.

Dave Goldenberg, President

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