

14 December 2016

As expected, the Federal Reserve has decided to increase interest rates by another 0.25%, hardly a big jump, but certainly a signal that the governors are watching the economy closely and making efforts to maintain the moderate expansion that has been under way. One or more increases may be in store for 2017, though as we've learned previously plans change and the Fed may continue to exercise restraint.

Meanwhile, the team of key players of the new administration continues to expand and indications are that a more pro-business attitude may lie just ahead. But there are issues to be addressed. For one thing, the incoming group is distinctly light on experience in government matters. For another, there is a continuing stream of news about protectionist actions that may be taken to strengthen the status of the U.S. business community. These are not matters to be dismissed lightly. Stay tuned.

With the Christmas barely two weeks away, investors continue to demonstrate enthusiasm. Indeed, this kind of behavior is typical of what we have seen in the past when a new president is about to take office. More often than not, the month or two following the election is a honeymoon period when the market moves higher in expectation of better things to come. Even so, as the promises of what a new team will bring to the table are followed by what they actually intend to do and can get done, a more somber mood usually follows.

That's not to say that a repeat of last January's plunge lies ahead, but it would be worthwhile to take a more cautious approach while awaiting indications of where we're going, how quickly, and what new risks require our attention. With all due respect to the pontifications of seers, although we can make reasonable estimates of the path of the economy, there are far too many imponderables to have perfect vision.

Stuff happens and sensible investors manage these risks by diversifying across a broad range of asset opportunities. We cannot prevent disruptions, but we can reduce their impact on our portfolios.