



Dear Client:

On Jan. 20, Donald Trump, as you know, will become the 45th president of the United States. This letter provides you our analysis of what the election's outcome means for you.

Let me summarize this letter for you: We expect the financial markets to experience volatility for a while, until the new Washington agenda becomes clear. Volatility is not to be feared, as it's a normal part of market behavior. And, we respond to volatility for you by implementing the Edelman Managed Asset Program's® (EMAP) strategic rebalancing program. So, our message to you is to remain confident. **We believe the election outcome will not interfere with your ability to achieve your long-term financial goals.**

The reason we're sending you this letter so quickly after last night's election results is because some anxious clients have called us. Anxiety is not limited to those who supported Hillary Clinton; some who voted for Donald Trump have also contacted us with worries. These folks are all wondering what they should do with their investments, and you might have similar questions. So, the purpose of this letter is to provide you with our analysis of the election, and offer you our advice and recommendations.

If you're feeling a bit anxious, you're not alone. Last month, a survey by BlackRock showed that almost three-quarters of Americans (71 percent) believe stock market volatility would increase no matter who won. And the Investment Company Institute announced last week that more money was withdrawn from stock mutual funds two weeks ago than any week over the *past five years*.

Clearly, many investors have been spooked by fears about inflation, interest rates, the federal debt and the overall economy. (Interestingly, it's not the first time an election has produced such fears. They cropped up four years ago, too: In 2012, nearly 40 percent of respondents said the Obama-Romney contest caused them to change their investment strategy, according to a survey by Phoenix Marketing International. Those fears were unfounded, as the S&P 500 almost doubled over the past four years.)

The reason we expect volatility in the global financial markets for a while is because the policies of Donald J. Trump are unknown. You see, Wall Street knows



how to make money whether the news is good or bad. Indeed, investment profits can be made whether interest rates rise or fall, whether inflation goes up or down, or whether jobs are gained or lost. In any given scenario, Wall Street can turn a trend into profits.

But Wall Street struggles to make money when it doesn't know which way the trend is going. So while the financial sector can handle news that is either good or bad, it doesn't do as well when the news is ... uncertain. And that is exactly where we stand with the new president-elect.

To date, President-elect Trump has been vague about his economic policies. No one is sure how he will approach our challenges involving inflation, interest rates, the dollar, the federal deficit, the national debt, the tax code or jobs. And uncertainty often leads to volatility in the financial markets.

So if you're wondering what President-elect Trump will do, or what will happen to your investments, our reply is: *relax*. It's been mere hours since he was elected. So, let's wait and see. And for sure, don't assume that a decline in the financial markets is an inevitable outcome. Although we all know that past performance does not guarantee future results, it is worth considering that yesterday's election means the Republicans will once again control the White House, House and Senate. Since 1948, this has happened in one of every 11 years — and the average annual return of the S&P 500 stock index during those years was 18.3 percent. **As far as your portfolio is concerned, the next four years could prove to be excellent for your financial future.**

Time will tell, of course. So, let's look more closely at the policies we can expect going forward. First, the Federal Reserve says inflation is expected to remain at or below 2 percent. That's good news. But the Fed also said recently that it expects to increase interest rates, beginning in December. That is bad news for long-term bonds, whose prices fall when interest rates rise. We have anticipated this for you, and that's why almost all the bonds inside your EMAP portfolio are short- and intermediate-term bonds (because bonds with three- to seven-year maturities suffer far less price volatility than 30-year bonds).

Here's what to expect regarding Social Security: President-elect Trump has said he will not reduce Social Security benefits for current retirees, but he's been vague about whether he supports tax increases to sustain it. He said during the



campaign that he would cut the top income tax bracket to 33 percent, eliminate the estate tax and leave capital gains tax rates unchanged. He has proposed a tax increase for private equity, venture capital and hedge funds. The earliest we expect any tax-law changes to take effect is 2018. (Retroactive tax increases are possible, though unlikely.)

So while you can expect some market volatility, there is no need to fear it. (Remember Brexit? That worried a lot of people, too — for about four days!) Indeed, volatility is a normal part of market behavior, and we will respond by rebalancing your portfolio as warranted. **Most importantly, remain confident that the election outcome will not interfere with your ability to achieve your long-term financial goals.**

And to that end, you can take advantage of the election results by taking control of the situation — meaning taking control of *your* situation. By channeling your energy into positive actions, you can make tangible improvements in your personal finances regardless of who you supported in the election. Here are seven ways you can help make the next four years successful for yourself and your family:

- 1. Increase the amount you're contributing to your IRA (if eligible) and retirement account at work (if you're not already contributing the maximum).** Studies show that the investor who accumulates the most money is the investor who contributed the most. Don't let the election news interfere with your need to save for the future. We can help you figure out the appropriate amount and place to save. And if you are already contributing the maximum to your retirement accounts, let us show you ways to save additional money in nonretirement accounts!
- 2. Refinance your mortgage.** With interest rates projected to start rising, this could be the last opportunity you'll have to lock in today's historically low rates. Talk with your Edelman Financial advisor to see if refinancing is in your best interests, and if so, what type and size of loan is best for you.
- 3. Update your estate plan.** Elections often create new state laws, and they sometimes have implications for estate planning. We're busy analyzing the new laws that take effect in January, and we'll give you advice about them. In the meantime, if you haven't reviewed your documents in several years, do so now.



We're also happy to refer you to an estate planning attorney.

4. Reassess your insurance. This year's devastating storms, floods and fires remind us of the importance to make sure you have the homeowner's coverage you need to rebuild if the worst happens. You also should make sure your disability, life, long-term-care and umbrella liability coverage is sufficient for your needs. Talk to us and your property/casualty insurance agent.

5. It's open enrollment season for insurance benefits at work. Now's the time to review your beneficiary designations, and your options for health and dental benefits, short- and long-term disability coverage, life and long-term-care insurance, and deferred compensation benefits. Let us know if you need help with the review.

6. Make sure you have sufficient cash reserves. This can help you avoid having to sell shares if you incur a personal emergency during a volatile period in the market. Your Edelman Financial advisor can tell you how much you should maintain in reserves and where best to keep it.

7. Beware of sales pitches. During periods of transition, con artists and unscrupulous financial salespeople try to exploit your fears. If someone approaches you with investment ideas that claim to offer guarantees or other too-good-to-be-true benefits, call us for a second opinion — before you invest.

We'll stay in touch with you, and as the new administration's policy proposals become clear, we'll provide you with specific advice for you and your family. In the meantime, let's celebrate our democracy, and the fact that we have once again, as we've consistently done since 1789, peacefully elected a president to lead our nation. And as we at Edelman Financial have consistently done since 1986, we will provide you the advice and help you need and want. If you need anything, please contact us.

Regards!

A handwritten signature in black ink, appearing to read "Ric Edelman".

Ric Edelman
Founder and Executive Chairman



P.S. I do want to mention one item that worries us. The pollsters, pundits and media all got this election wrong. Many hoped, but few expected, Donald Trump to win, and we are not aware of anyone who predicted that Republicans would control both houses of Congress as well as the White House. Yet that is what happened. The shocking outcome is likely to cause some people — regardless of who they voted for — to respond emotionally, even recklessly. Financial advisors aren't immune, and some might be reacting as emotionally as their clients. Fortunately, at Edelman Financial, our financial planners don't operate individually or independently. Instead, we function as a team, with coordinated, cohesive advice and action. This is vitally important for you during times of high stress and uncertainty, for it means you can be certain that the advice you get from your Edelman Financial advisor is what you would expect to receive from me personally, and that the advice we offer you is carefully evaluated before you ever hear it. You don't need to worry that you're hearing something that is emotionally charged or ill-considered, and you can have confidence that your advisor is operating as a skilled member of an effective team that has decades of experience. Turmoil and uncertainty is new for many of our clients, but it's not new for us. I mention this because we learned during the 2008 Credit Crisis that financial advisors tend to operate individually, without the benefit of a team approach, and that can leave their clients to wonder about the source and basis of the advice they are getting. You don't have that concern when you rely on Edelman Financial Services. We've been through periods of uncertainty before, and together we will guide you through this one as well.

P.P.S. Feel free to forward this email to your friends and family members. They may benefit from reading it, and we are happy to talk with them and offer advice for their personal finances, too.

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