2020 Annual Investment Forum Summary Notes

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The notes below are a summary of the remarks and views expressed by the speakers at the 2020 Annual Investment Forum and do not necessarily reflect the views of Canterbury.

ARE VALUATIONS NOW IRRELEVANT? Rob Arnott, *Research Affiliates*

Valuing Equity Strategies: Past is Not Prologue

- Most investors are trend chasers.
  - Average investor returns have been 200 basis points lower than the S&P on a dollar-weighted basis because of performance-chasing.
  - Growth investors have done worse; value investors have done better.
- In actively managed mutual funds, a naive contrarian strategy can work.
  - The bottom-decile manager outperforms the top-decile manager by 300 basis points over the next three years.
- What style are investors chasing today? Growth.
  - Growth has been 350 basis points ahead of value for the last 10 years.
- What style is priced — relative to its own history — to deliver the best future returns? Value.
  - When value has gotten as cheap as it is today, it has historically never failed to outperform growth over the next five years (it has outperformed by 8% on average).

Equity Forecasts: Past is Not Prologue... Again

- What were the sources of historical returns?
  - Equity returns are a function of dividend yield, earnings growth, and valuation changes.
  - Given current yield, growth, and valuations, the expected return in U.S. large-cap equities is 2.4%.
- Cyclically Adjusted Price to Earnings (CAPE) is powerful at forecasting long-horizon returns, but almost useless for market timing.
  - Over a one-year period, there is no pattern.
  - Over five years, there is a strong pattern.
  - Over 10 years, there is a 70% correlation between a higher CAPE ratio and lower future returns.
- The link between starting valuations and subsequent returns is robust across equity markets.
  - In various countries, except Canada (very cyclical industries), the relationship holds.
- U.S. equities are poised for lackluster future returns.
  - Ten years ago, the CAPE ratio predicted 13%; we got 16%.
  - As of the end of December 2019, the CAPE ratio was predicting below 5% returns.
- Common valuation metrics imply overvaluation.
  - Shiller PE, market cap to GDP, Tobin's Q, and Hussman's PE are all 60-110% above historical averages.

- Low macro volatility helps explain high CAPE ratios.
  - Low concern about GDP, inflation, and macro outlook leads to higher valuations.
  - But, if there's a return to instability, the CAPE will go down.
- Even after making multiple adjustments, U.S. equities face headwinds from valuation contraction.
  - Even after adjusting for a more stable business environment, the valuation differential still implies a 3.3% annual return headwind over the 10 years following December 2019.
- High earnings are not enough to portend a high CAPE ratio.
  - For returns to remain elevated with a high CAPE, earnings per share (EPS) growth must be high as well.
  - High EPS growth often precedes low EPS growth.
- Equities: long-term return expectations (as of the end of December 2019)
  - U.S. large-cap equities are the least attractive in terms of forward-looking return expectations because they have performed so well over the past decade.
  - Emerging markets (EM) — e.g. Russia and Turkey — are priced to give you the highest return based on current yield, macroeconomic growth, and mean reversion.
- Mainstream asset classes offer less than most investors expect.
  - A traditional 60/40 portfolio only offers 2.3% expected returns in the U.S. and 1.4% globally.

How Do the Largest Holdings of Index Funds Impact Performance?

- How expensive are FANMAG (Facebook, Apple, Netflix, Microsoft, Amazon, and Google)?
  - FANMAG are worth more than China, the U.K., and the combination of France and Germany.
  - They are worth more than any individual sector, besides the financial sector.
- The "Top Dogs" (the top holdings by weight in an index) are constantly changing.
  - Typically, only around two out of the top 10 companies persist from one decade to the next.
  - "Top Dogs" vanish because they underperform the market.
- Unconventional assets are mostly priced to offer better returns.
  - EM equity and EM (local) debt are the most attractive.

Key Takeaways

- The link between starting valuations and subsequent returns is powerful, even if mean reversion does not always occur rapidly.
  - In the short-term, bubbles can persist. Do not necessarily short them, but avoid them.
- Across asset classes, higher return potential exists in international and diversifying markets.
- Within equities, the value factor offers the highest return potential today.
- The largest stocks in the market are often expensive and have historically underperformed after reaching the top 10.

THE PSYCHOLOGY OF INVESTING: Morgan Housel, *Collaborative Fund*

The Story of Two Different Investors

- Investor #1, Grace, was born in 1910 on a farm outside of Chicago. Orphaned as a child, never married, never had kids. She bought a house for $7,000 in the 1950's and lived there for the rest of her life. She worked her whole life as a secretary.
    - She died in 2010 at 100 years old and left $7 million to charity.
    - People didn't understand where she got this $7 million — there was no inheritance and no lottery winnings.
    - Turned out she took her extra money as a secretary, put it in the stock market, and never touched it.
- Investors #2, Richard, had the opposite upbringing of Grace. He had a wealthy family, was an undergraduate at Harvard, and attended graduate school in Chicago. He became one of the most important men in finance and retired in his 40s to pursue charitable activities.
    - He ended up filing for bankruptcy after he was wiped out from the financial crisis.
- There is no industry other than Finance where these types of stories are possible.
    - Someone with no education, network, etc. can outperform someone with the best training and background.
    - These stories demonstrate something very important about investing: It's not necessarily about what you know, where you went to school, or how sophisticated your models are. It's how you behave, your relationship with greed and fear, and your ability to take a long term mindset.
- Behavior is hard to teach even to very smart people. It's not analytical and cannot be put into spreadsheets. It's a soft topic that is often swept under the rug when learning about investing.

What Do Earthquakes Teach Us About Investing?

- Hurricane Katrina killed 1,800 Americans, Pearl Harbor killed 2,500, September 11th killed 3,000, and the death count for Allied soldiers on D-Day was 4,400. The baseline estimate for number of fatalities for the rupture of the Cascadia subduction zone in Seattle is 13,000.
- When people think about earthquake risk in the U.S., they think about San Francisco and Los Angeles. But Seattle has far more risk.
- Why is it that California has done so much to mitigate earthquake risks while Seattle has done so little?
    - Voters and regulators in California are frequently reminded by small- and medium-sized earthquakes; they are experienced on a regular basis.
    - Washington has enormous earthquakes that occur every few hundred years, but no regular earthquakes. There are no constant reminders to them that earthquakes exist, so no real incentive to do something about it
- How this ties to investing: Our preparation for risk is tied to our unique and personal experiences. Whenever we're thinking about risk, we heavily anchor to what we have experienced in our own lives.
    - What stocks did in your teens and 20s is highly predictive of your future risk tolerance.
    - If you grew up during the great depression, you are about half as likely to invest in stocks compared to growing up in the 1960s. If you grew up in the 1970s, you are one-third as likely to invest in bonds later in life than growing up in the 1950s. If you grew up during the 1980s, you are twice as likely to buy stocks than those who grew up in the 1970s.

- How to combat this: Talk to as many people as you can, particularly those in a different country or generation from yourself.

What Baby Brain Development Teaches Us About Investing

- Newborn babies develop rapidly early in life. After age 2, the density of synaptic connections starts to decline. By age 6, the average child has about 1/3 of what they had at age 2. This continues and by age 20, average person has lost about half of synaptic connections that were there at age 2.
    - Reason for this deterioration: some synaptic connections are miswired and others are unnecessary to function. As you lose synaptic connections in your brain, you are actually getting smarter.
- The idea that something can improve and get better over time, despite constant loss and destruction, is not intuitive but is the case in a lot of different fields, including investing.
    - Russell 3000 Index, going back to the 1980s, compounded at over 11% per year with dividends with some volatility. 40% of companies lost money during that period. 7% of companies account for virtually all of the return.
    - If we look at the S&P 500 starting from the 1950s, it is also a picture of success. But periods where market is down 5%, 10%, or 20% from previous all-time highs are vast. This is even more obvious when looking at individual stocks such as Netflix. The company lost 50% of its value on four separate occasions between 2002 and 2018.
- Good investing is not necessarily about making great decisions, but about consistently not making mistakes and reacting in a way that keeps you away from your long-term investing strategy

What Does Running Teach Us About Investing?

- Archibald Hill could accurately predict how fast an athlete would be able to run outside on a test track and he ended up winning a Nobel Prize in 1922 for his work.
    - The irony with Hill's research is that his predictions were very accurate on the test track, but maintained almost no accuracy on the race track in the real world.
    - Eventually, Hill realized what was happening: In a competitive race, people get nervous, scared, hyper-focused, excited, and filled with emotions. These are all things that are nearly impossible to replicate in a laboratory.
    - How fast we can run is heavily influenced by our in-the-moment incentives.
- The economy behaves similarly. It reacts differently in the real world than we would expect it to when studying it in a laboratory.
    - In November 2009, the market had already gone up 30% from the GFC. Barron's wrote an article that the "easy money has been made" and anyone could have seen the gains coming to that point, but would be difficult going forward.
    - In 2010, after continued large gains, Morningstar said the easy money had been made. By 2011, Marketwatch warned that the easy money had been made. In 2012, TheStreet, 2013 Morningstar, CNBC, Globe and Mail, etc. all the way until 2016, every year had a headline saying the same thing.
- The "perfect" investing formula: dividend yield + earnings growth +/- change in valuations.
    - Dividend yield, we know today. Earnings growth can make a decent estimate.

  - But the change in valuations, especially looking at a period of less than five years, is fundamentally unknowable. There is a growth and interest rate component, but over short periods of time, that component is based on peoples' mood. This is why predicting what will happen in the stock market is so fundamentally difficult.
- We need to have some margin of safety, which renders forecasts unnecessary. Not relying on forecasts is the only way to navigate a world that is impossible to predict. Compounding only works when we can give it time.

What the War on Cancer Teaches Us About Investing

- The war on cancer really began in the 1970s, as there was a big burst of scientific optimism during this time. Despite the progress we have made, we have not been able to cure cancer like we once thought possible and may never be able to do so.
  - Therefore, we should spend some focus on prevention. But, it is extremely difficult to raise money for cancer prevention rather than treatment, or to get regulators involved.
  - Why is it so difficult to get the community interested in prevention, even though it would prevent 50% of cancer development? Prevention is a behavioral exercise, which has nothing to do with cells and molecules, and therefore inherently less interesting albeit more effective.
- How this relates to investing: We know how to succeed in the stock market over a long period of time. You need to spend less than you make, save the difference, buy a diverse low-cost portfolio, and be patient. But this is not what is taught in schools.
  - Berkshire Hathaway returned 18.6% over a long period of time, relative to 13.5% for the average private equity fund. There are over 2,000 books devoted to how Buffett did this and they go into great detail about how he thinks about valuations, management teams, and investing overall.
  - Significant difference: average private equity fund charges 2% management fees/20% carried interest, Buffett does not. This individually accounts for 4% of his 5.1% annual outperformance, but this is not mentioned in a single one of those books. The explanation is too simple for people to take seriously; they want to dive into more complex theories.
- The best financial advice is to take a simple idea and take it seriously. The goal of investing is not to minimize boredom but to maximize returns, and no investment recommendation is worth it if a client can't stick with it.

What Flying Teaches Us About Investing

- Airplanes changed everything. They revolutionized transportation, the military, and communication. If you had to make a list of most important inventions of the 20th century, flying is definitely in the top five if not number one.
  - Anyone could perceive how massive the moment was of the first flight, even a child. However, the New York Times, the day after the Wright Brothers' first flight, made no mention of the event. This went on for years. The only newspapers that covered their first flights did it out of sympathy and feeling sorry for the brothers wasting their time on the "flying machine."
  - At the same time, a lot of engineering teams were trying to build an airplane. The Wright Brothers did not have the most experience, they weren't the smartest, etc. Other teams gave up because they did not have the same amount of patience.
- How this relates to investing: When progress is measured generationally, results shouldn't be measured quarterly. Investors underestimate the amount of time needed to put the odds of long-term success in their favor.

Key Takeaways

- When people think about risk in investing, they often think about what will happen to them.
- The more useful definition of risk has to do with ourselves — our own misconceptions, our own patience, linked to our own history.
- You have no control of what the stock market or the economy will do next. The only lever you have to pull is controlling your own behaviors, and that is what matters most in investing.
- “People do not get what they want or expect form markets, they get what they deserve.”

BREAKOUT SESSION: IMPLEMENTING A CO-INVESTMENT PROGRAM FOR TAXABLE INVESTORS

Private capital co-investment programs afford investors more control over their private capital portfolios and the potential for return enhancement. This session, moderated by Canterbury, featured Michael Dal Bello of Pritzker Private Capital *and* Shawn Schestag of Sixpoint Partners *as they discussed the history of co-investing, as well as the advantages and challenges of implementing a co-investment program from both the LP and GP’s perspective. Below are key points reviewed during the panel discussion.*

Overview: What is Co-Investing?

- A private equity co-investment is when a LP will invest in deals alongside the fund that the LP has already invested in.
- Co-investments help mitigate the J-Curve, further diversifies an investor’s private equity portfolio, and management fees and carried interest are typically not charged.
- History of co-investing:
    - Private equity co-investing became institutionalized in the mid-90s.
    - By 2017, approximately $330 billion of private equity capital was deployed.
        - Approximately 20% of this capital comprised co-investments.
        - In 2000, the ratio was only 1%.
        - In 2012, the ratio was 13%.
    - Who were making these co-investments?
        - In the beginning, it was banks, insurance companies, and fund of funds
        - Today, it is pension funds, sovereign wealth funds, investment consultants, and banks (but to a lesser degree).

Reasons to Consider a Co-Investment Program

- No additional fees charged to LPs for co-investments.
- An investor can invest with more confidence when investing in an industry he/she knows.
    - Increased ability to construct their portfolio more accurately.
    - LPs can zero-in on specific investments that they are more interested in, rather than relying on the GP to make investments without any LP involvement.

- GP-LP alignment
    - Co-investments have customized incentive economics that are beneficial to both the LP and GP when the underlying co-investment performs well.

Reasons GPs Offer Co-Investments to LPs

- Strategic LPs may actually provide value to the underlying co-investment.
    - Certain LPs may have first-hand insight on the industry that the underlying co-investment is in and can thus use their experience and network to help improve the outcome of the underlying investment.
- However, LPs should be careful of adverse selection.
    - While GPs are not intentionally adversely selecting deals for LPs to co-invest in, LPs should consider why GPs are offering co-investments on certain deals and not all deals in the fund.
        - Is it because of fund size limitations, over-concentration concerns, or other reasons?

What LPs Can Do to Position Themselves for Co-Investments

- Given how competitive the private equity market environment is at the moment, LPs should be more disciplined in their decision making, but move with pace when an opportunity comes their way.
    - LPs should have the right personnel and resources in place so they can move quickly on due diligence and submit a response to the GP as quickly as possible.
    - Invest in what you know and what you are good at.
    - High net worth individuals/families are quicker to act on co-investment opportunities, while pensions have to deal with multiple layers of decision making, and thus GPs consider the former to have better and quicker decision-making capabilities.
    - A quick "no" is the next best answer to a "yes."
- If a LP is serious about co-investing, make sure that their initial interaction with the GP is a positive one.
    - LPs should be clear about the types of investments they like and don't like so the GP does not waste their time and only reaches out to LPs that are interested.
    - Strike a balance between asking the GP the right questions about a co-investment deal and becoming a burden to the GP, because the GP is still doing their own work on the deal.
    - LPs should start developing a relationship with the GP early on so the LP can develop their confidence in the GP.
    - LPs should not try to be everything to everyone. It is okay to not do every co-investment deal that comes your way.

How Active Have LPs Been in the Co-Investment Process?

- Most sophisticated LPs have a third-party resource to help with due diligence, while other LPs bring in external resources.
- Usually, 80% of the due diligence that is done is led by the lead private equity sponsor, while the remaining 20% of the due diligence is done by the LP themselves.
- LPs should not wait until the very end to ask the right questions.
    - If there is a key issue or risk pertaining to the co-investment deal, make sure to address that at the beginning of the due diligence process.

Q&A

- How does a co-investment compare to a joint venture?
  - A joint venture is a 50/50 effort, while a co-investment is not.
- What are some other points to consider as it relates to adverse selection?
  - The last thing GPs want to do is give its partners a bad co-investment deal.
  - GPs do not want to ruin the relationship due to a bad co-investment, so they have no self interest in giving its clients a bad deal.
- What are some of the financial reporting obligations/valuation analyses requirements in a co-investment?
  - Make sure this is addressed in legal documents and side agreements.
  - Typically, there is quarterly financial reporting and unaudited valuations.
- What can a LP do to stay top of mind to GPs as it relates to co-investment deal flow?
  - LPs can demonstrate a distinct value-add to the GP, such as making strategic introductions to the GP.
  - Get to know the GP better prior to any co-investment discussions.
    - Grabbing coffee or lunch
    - Being responsive

BREAKOUT SESSION: NAVIGATING CHALLENGES FACED BY NONPROFIT STAFF AND TRUSTEES

Today's complex investment environment presents a significant challenge to investment committees charged with the effective stewardship of financial assets. This interactive session led by Canterbury explored both the challenges and opportunities institutions face as they balance investment considerations, fundraising objectives, and governance models while maintaining alignment with their overall mission. Below are key points that were discussed during the session on the topic of governance

Structuring Boards and Committees

- Should there be a separation between the investment committee (IC) and the finance committee?
  - Some believe it is beneficial to have separation, as it can protect the endowment from budget objective pressures.
  - Others believe it is beneficial to have more overlap between the IC and the finance committee.
    - After recognizing a need for more "technicians" on the board who understood fiduciary responsibility and how to manage the organization's assets, one organization began to use the IC as a "feeder" for the Board.
- Another organization has formed a finance committee from its foundation's board of directors. One member of that finance committee is on the organization's IC, and all other members of the IC are experts in finance who also sit on other public and private boards.
  - The IC oversees funds for the hospital, the foundation, and the retirement plan. They look at each of those funds separately and manage the money specifically for those targets.

    - They have found it invaluable to have people with a background in finance who have "proven" themselves with their careers.
- On the other hand, some appreciate the diversity that non-finance professionals can bring to a board/committee.
    - A strong chairman is key to keeping the committee focused on decisions that need to be made

Creating Board Diversity

- There are many forms of diversity: gender, age, nationality, professional background, etc.
- Diversity brings fresh ideas and new perspectives. Sometimes, historical tenure is valuable, but having fresh ideas is also important.
- Openly recognize differences of opinions, so animosity does not fester or develop amongst the board/committee.
- Diversity often goes hand-in-hand with succession planning. Having an effective board can come from its diversity and having continuity.
- Major challenge: recruiting younger members
    - Often times difficult because current board members only know people of a similar age range
    - Time commitment makes it hard to get active participation; often, younger members are just starting their families
    - Telephone calls constitute active participation, but are arguably less effective
    - Specifically in Los Angeles and Orange County, traffic is a major issue for board/committee members
    - Suggested solution: lunch meetings

Importance of Succession Planning

- Universal agreement that succession planning is crucial and should always be a part of the strategic planning for a board
    - Be aware of boards/committees that are especially reliant on one or two people
    - Key to keeping a board evergreen
- One institution has found success through staggering participation of board members and rotating membership with the goal of lowering incidents of having too many older board members and decreased diversity.

Fundraising

- Sometimes, when a nonprofit is in fundraising stage, the board can be more focused on fundraising than on fiduciary responsibility.
- Some believe that it is important to have a large number of people involved in fundraising.
- Another organization has found it beneficial to have a separate campaign committee that is solely responsible for raising money.
    - At this organization, not everyone is an asker. Some people are ambassadors, who do not ask for funding.
- One nonprofit has found success in requiring that every trustee put a planned gift for the institution in their will.

- If the trustee donates now, it will reduce the planned gift and allow the trustee to receive tax benefits for their donations.
- Major challenge: competing for philanthropic money in the local community. How do you compete for the same money in the same market?

Staff Education and Development

— Importance of education for the board, staff, finance committee, and investment committee

— One nonprofit has seen success by mandating training and certification in nonprofit legislation, the UPMIFA, etc.

- Gives everyone a common language and a thorough understanding of their role
- Empowers members to ask questions and stay engaged
- Process of taking an exam on fiduciary responsibility builds cohesion
- Helps avoid "smartest guy in the room" mentality

A VIEW FROM WASHINGTON — THE GOOD, THE BAD, AND THE UGLY: Libby Cantrill, *PIMCO*

Current Climate

— There is a lack of trust in Washington and a low approval rating of Congress.

The Good

— President Donald Trump delivered on several pro-growth and pro-market policies in his first two years.

— The Tax Cuts and Jobs Act of 2017 increased government spending, created a more stable regulatory environment, and continuity at the Federal Reserve Board.

- Boost in fiscal policy contributed 0.5% in 2018 and 0.4% in 2019 to GDP growth, but will fade thereafter.
- The tax bill has been a boon for share buybacks, while we have only seen a marginal pick up in CAPEX spending. We have benefitted from these buybacks in the short term but it has not improved the real economy (i.e. wage growth and productivity enhancements). However, this picture could change over time.
- There has been some deregulation, although it has been more a lack of new regulation that has lifted "animal spirits." Companies are less worried that there will be new regulations that would hinder business growth.
- Trump's Fed looks more or less like the Yellen-led Fed, and efforts to limit independence have failed (for now). Worries that the Fed is less independent are overblown. The people on the Fed are not persuadable and are much more independent body than we may think.

— Trump, with Senate majority leader Mitch McConnell's help, has remade the judicial branch, which could be his longest-lasting legacy. We have seen 46 federal appeals court confirmations during the president's third year.

The Not So Good (Or Just Bad)

- The deficit may be the largest casualty of recent fiscal policy, potentially limiting future counter-cyclical stimulus.
  - Usually, when the unemployment rate goes up, deficits go up. Today, we see economic growth with low unemployment, however, deficits continue to rise.
  - Any additional stimulus by the election is not going to happen (no tax cuts 2.0, payroll 2.0, or infrastructure spending). People are worried about this dynamic of increasing deficits during economic growth.
  - If we hit a recession, the government would have less ammunition to enact additional stimulus and can lead to a longer slowdown/prolonged recession. Fiscal policy will be less effective.
- White House staff turnover:
  - 1,397 days that cabinet positions were vacant. There have been 15 cabinet-level departures over the past 2.5 years compared to four departures for President Bush and seven departures for President Obama.
- Increasing partisanship and polarization, although Trump is more of a symptom than a cause.
  - 45% approval ratings for Trump, but very stable favorability from the Republican Party. People in his party have been unwavering for this president since the beginning (89% approval rating). Trump has the lowest favorability from the Democrats than has any other president (8%).
  - For policies to work, there must be compromise and that does not seem possible at this time. Therefore, the government appears more fragile, less robust, and less able to address structural issues in our society.
  - Partisanship remains high, but this seems to have started before Trump and coincides with the advent of the iPhone and social media.
    - Rising income inequality may be another reason for growing polarization.
- Trade Policy Risk, while diminished, continues to be a downside risk for markets. Don't underestimate the president's longstanding views on trade.
  - Trump has shared these views for over 40 years. The escalation with China given his background felt more likely than the market had expected.
  - Being tough on trade polls well, especially among Trump's base and swing-state voters, who are disillusioned by globalization. Plus, Americans, on a bipartisan basis, have the lowest opinion of China in decades, which gives Trump more runway to escalate should he want to.
  - Although the U.S. has a temporary truce with China (Phase 1 deal), issues — such as technology and intellectual property — will not be going anywhere and will likely be a headwind for markets going forward.

The Ugly

- The 2020 campaign for the Democratic Nomination, otherwise known as "the Hunger Games of 2020"
  - We have witnessed the fight between the very progressive left (Elizabeth Warren/Bernie Sanders) and the center left (Joe Biden).
  - As of today, Biden has a lead, followed by Sanders, and then Warren. Biden continues to lead in the hypothetical Trump elections.
  - But, we are still in the early days and should not put too much stock in the early polling. The front

runner in January before the general election is historically not the individual that wins the nomination.

- By March, we should have a good idea of the nominee or whether there will be a brokered convention.

— The Primary Paradox: The candidate who can win the nomination may be too far left to win the general election.

- Remember, Congress (the Senate, in particular), will matter and could be the "put" on progressive policies. 53 Republicans to 47 Democrats in the Senate.
- For Democrats to take back the Senate, they need to net 3 seats. This would essentially be a 50/50 tie. Most policies need 60 votes to be approved. Thus, we should expect more evolutionary rather than revolutionary policymaking.

— Despite the rhetoric, centrist Democrats still dominate in the House. Of the 235 Democrat seats in the House, 31 are in districts that voted for Trump in 2016.

— Republicans in 2020:

- Only 1 option: Trump-Pence 2020. Trump's record on the economy could make him a formidable opponent. A president that oversees a strong economy tends to get reelected.
- But in the key swing states, the economic picture is more mixed. Pennsylvania, Michigan, Ohio, Wisconsin, and Florida are essentially the only states that matter in the 2020 election.
- A "but, but" — the president's "low-ish" approval ratings have not historically translated into reelection. Those with an approval rating below 50% have not, in the past, been reelected.

Key Takeaways

— President Donald Trump has delivered on several pro-growth and pro-market policies, however, his longest lasting legacy may very well be the number of confirmed judges he has nominated.

— The increased deficit may be the largest casualty of recent fiscal policy. The deficit has continued to rise in a market environment with low unemployment and economic growth. If hit with a recession, the government will have fewer resources to enact additional stimulus, which can lead to a prolonged recession.

— The Democratic candidate who wins the nomination may be too far left to win the general election (i.e. replacing private health insurance, make all public colleges free, wealth tax, health care to undocumented immigrants); the election will ultimately come down to five states: Pennsylvania, Michigan, Ohio, Wisconsin, and Florida.

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