



ALJIAN CAPITAL MANAGEMENT

January 3, 2017

Hello Friends,

One of my most important responsibilities as a portfolio manager is to manage risk. It's one thing to make a lot of money and correctly anticipate the direction of the stock or bond market, but it's another thing to protect capital from decline. When I wrote my last letter in October in front of the presidential election, I struck a cautious and more defensive tone than usual. I figured that either a Trump or Clinton presidency would be a negative for our financial well-being.

I thought that if Trump became president, not only would the Left present barriers to effective leadership, but I assumed that the GOP would mutiny against him. So many key Republicans withheld support during the campaign and where Trump did find support, it was only lukewarm. I thought, how could this man lead if everyone was against him? And we all know what happened, the opinions of the news media, poll takers and political elite didn't matter. The only thing that mattered was the voice of the people who voted. The political mainstream has now rallied behind the Trump presidency and he is widely accepted by many of those who originally opposed him. Bottom line: My assessment of a Trump presidency was wrong.

The Dow Jones Industrial Average has had a strong advance starting on the first morning after the election results. From 11/9/16 to 12/31/16, the Dow advanced 1429 points mostly on the anticipation of the launch of Trumponomics on 1/20/17. Trump has promised \$1 trillion in new infrastructure spending coupled with an aggressive across the board tax cut for both corporations and individuals.

It has been reported that American companies are hoarding \$2.5 trillion in foreign accounts because of the punitive tax rates that would be imposed if that cash were to be repatriated back into the US. Trump wants to cut that tax rate in half, or more. I believe that this tax cut will be a top 2017 priority. If \$2.5 trillion finds its way back into the US, that would mean about a half trillion in new government tax and \$2 trillion of cash for US corporations to invest. If Trump wants to spend \$1 trillion on infrastructure, according to my math, he could pay for half of it by just negotiating a deal with business leaders. My sources show Microsoft and General Electric with more than \$100 billion, Apple at \$200 billion and Pfizer's with \$80 billion, all held in foreign accounts,

This vast pile of foreign cash could provide a substantial boost to GDP. Corporations would use this cash for stock buy backs, increased dividends and new merger and acquisition activity. There are only positive ramifications should this cash hoard find its way out of the Cayman Islands, Bermuda, Ireland, and China and back into the domestic economy. Who knows, maybe with an extra \$100 billion or so, Google will acquire Twitter, Disney takes out Netflix and Apple buys Tesla.

Enclosed is my list of a few of my favorite stocks for 2017. The theme of this year's list was to identify 11 stocks with large overseas cash hoards. Successful stock picking is dependent on identifying a trend that hasn't become obvious to the rest of the world. I certainly am not the only person who has thought of this concept, but I want to buy these stocks before a tax cut is announced instead of reacting to a story after the news has become public. Last year's list had six stocks that outperformed the S&P and six stocks that lagged. The best performer was Northrup Grumman up 23% and the worst performer was Nike.

I'm working as many days and hours as ever and I have zero intention of retirement. Jessica and I are pleased beyond words for having created our own firm and we only wish that we would have done this ten years sooner. As always, please call or email with questions or comments. I'm always available to discuss strategy, investment objectives or risk tolerance. And if you know someone who might benefit from our services, all referrals are gratefully accepted. Happy New Year.

Sincerely,
Jim Aljian

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Stock Shopping List

1/3/17, stock symbol and closing price in parentheses, in alphabetical order

Amazon (749.97) The stock price has risen about 1000% over the last ten years. There have been very few opportunities for entry at lower prices over that time frame, but today is one of those rare chances to buy at a lower price. Stock closed at \$835 on 10/25/16 and has dropped \$85/share since that date. Buy these shares now and commit to owning for another ten years. No trading, just be an owner.

Apple (115.82) Holds the largest sum of offshore cash than all the others. Estimates range from \$200 to \$230 billion. Add that amount to a cash hoard at home and the company is drowning in cash. Expect substantial dividend hikes, stock buy backs and acquisitions. Deal maker Trump will get Tim Cook to bring it home with minimal IRS handling fee.

General Electric (31.60) This one has been a laggard for a long time. However, the business mix today is radically different than 10 years ago. The company today is not your father's GE. The company has been transformed into a global digital industrial conglomerate. Holds \$90 billion offshore.

Google (792.45) Like Amazon, there haven't been many attractive entry points to buy the stock over the past 10 years. Price was \$835 on 10/24/16, and is on sale today \$42/share lower. Like Amazon, buy these shares now and commit to owning for another 10 years. No trading, just be an owner. \$1000/ share not improbable. Holds \$49 billion offshore.

Johnson and Johnson (115.21) This one was on the list last year and performed well. There's no such thing as a "safe" stock, but JNJ is a lot less risky than most all of the others. Company was founded in 1887 and has now raised the dividend 54 years in a row. There is no rational reason to ever sell these shares, just add to the position on dips. \$38 billion held offshore.

Microsoft (62.14) The company has been transformed from providing an operating system for desktops to a key player in the rapidly growing cloud computing sector. Office 365 has shown no sign of slowing and valuation is reasonable with a 2.5% dividend yield. Recently acquired LinkedIn and expect another acquisition once they repatriate their \$113 billion in offshore accounts.

Nike (50.83) This one was also on last year's list and was down for the year making it the worst performing Dow stock in 2016. However, Nike was the best performing Dow stock in 2015, up 36%. Up one year, down the next and my view is that the stock rebounds in 2017. The Nike Swoosh is recognized all over the world. \$8 billion held in offshore accounts.

Pfizer (32.48) Drug stocks have been out of favor due to high price of drugs and possible government intervention. Not likely to happen, and even if it does, company will still make a billion dollars or two. Dividend yield is close to 4%. Holds \$80 billion overseas and likely to keep making acquisitions with an abundance of cash.

Prudential Financial (104.06) Financial sector has been the strongest performing group since the election. Dirt cheap at 10 times earnings with a 2.6% dividend yield. One of the largest life insurance companies in the world with customers in 40 countries and \$1.1 trillion in assets under management.

Regeneron Pharmaceuticals (367.09) A biotech developing new drugs for cancer, inflammatory disorders, and degenerative eye diseases. Blockbuster drug Eylea treats macular degeneration and continues to gain market traction. Stock price closed at \$579 in 2015 and now over \$200/cheaper in 2017. So often last year's losers are next year's winners. A risky and volatile choice suitable for trading.

Salesforce.com (68.46) Buzzword in technology these days is CRM services, or Customer Relationship Management. This company is the leader and trend setter. Has over 100,000 customers in more than 70 countries. A very strong demand for the product, yet stock price was in retreat for most of 2016. A great opportunity to build a position and wait for the market to rotate back into this stock and sector.

Dow Jones 19762.60

S&P 500 2238.83

Nasdaq 5383.12

Closing Prices as of 12/30/2016