INVESTMENT
UPDATE

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THE GOOD, THE BAD AND THE UGLY: REVISITED

A NOTE FROM JOE ROMANO

As an Economics and Political Science major at Wesleyan University in Connecticut, my days were spent studying Marxian or Keynesian economics, but many a night was spent with two close friends, both of whom happened to be film majors and who 25 years later, are successful in the filmmaking world. They introduced me to different film genres (I had little idea that there was such a thing), and one of the most influential to me to this day has been that of the famous Italian movie director Sergio Leone and his "Spaghetti Western."

One of the most notorious examples of his work is his 1967 release "The Good, The Bad, and The Ugly" starring Clint Eastwood, now himself an influential director. I recently came across this review of the movie written at the time of its release: "By far the most ambitious, unflinchingly graphic and stylistically influential western ever mounted, [the film] is an engrossing actioner shot through with a volatile mix of myth and realism."

Give that a re-read if you need to, but the parallels between the film, this review, and the presidential campaigns to me are very striking. Think about it: "ambitious" yes as all political campaigns are with "volatile mix of myth and realism;" "unflinchingly graphic" is a term that even Trump and Clinton supporters could agree on!; "stylistically influential" is probably a bit of a stretch or at least let's hope so, as no one hopes this is the new normal and that we have to endure political seasons like it in the future. Hence, "The Good" is that at least this part of it is all over.

"The Bad" however, is that none of us can stop talking about it, especially us market prognosticators! So I thought it would be good to focus this newsletter on the election, its impact on the market, and what may be to come.

First, what happened? No one exactly knows and this has been the 24/7 focus of various news outlets for the two weeks after the election. What is for sure, is that the pollsters, and the market, didn't get this right. Few pollsters predicted a Trump win, and few market forecasters anticipated the market reaction that has transpired.

The Dow had seven days of consecutive gains spanning over 1,000 points, including the day preceding the election through five days after. The rally the two days before the election were attributed to FBI Director Comey's release in the Clinton email investigation seemingly tipping the odds back in favor of her. The market seemed to be favoring this outcome. But the rally five days after a Trump rally flies in the face of this and is totally unexplainable. The more predictable (and wrong) outcome seemed to be unravelling the night of the election. As more states went Trump's way that evening the more the Dow opening futures fell, from 400 points to an 800 point decline at their nadir, at the time of the Trump victory announcement in the wee hours of the morning.

By the time the market opened, the losses had all but evaporated and the market essentially opened flat, kicking off the ensuing 5 day upward trajectory. Industrial stocks rallied on the talk of infrastructure infusions, financial and healthcare stocks on the possibility of less government intervention.

At the same time, a flight from bonds was the steepest two week sell off in the Barclay's Global Aggregate index in over a quarter century, taking yields up over 50 basis points (0.5%) to 2.30% on the 10 year treasury.

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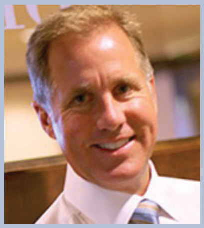
NEW DOL RULES TO IMPACT RETIREMENT ACCOUNTS



The financial services sector is already subject to a tremendous amount of oversight by various government agencies and regulators. Romano Wealth Management is both a broker/dealer and registered investment advisor. We abide by rules and regulations that have been implemented by the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA) and the Municipal Securities Rulemaking Board (MSRB). Now a different government entity, the Department of Labor (DOL), is implementing new initiatives and regulatory changes. These rule changes will have a seismic effect on how investment advice and transactions are handled in 401k plans, Individual retirement (IRA's), education and health savings accounts.

Beginning in April of 2017, the new rules dictate that anyone who provides investment advice related to a retirement account is considered a "Fiduciary" and is required to act in the sole interest of the client. In addition, the Advisor and Financial Institution must give prudent advice that is in the customers best interest, avoid misleading statements and receive only reasonable compensation.

These new rules seem logical and already mirror our firms existing mission statement which states, **"It is the mission of Romano Wealth Management to help our clients achieve financial security by offering the best investment advice and service possible for a fair and reasonable fee."**

However under the new stipulations, investment recommendations can only be offered in one of two ways. By engaging in a fixed fee based only advisory relationship (with no other compensatory conflicts), OR, in a nondiscretionary commission based account. Under the new rules, if an advisor wants to continue receiving variable compensation from a commission based account, (in the form of commissions, mutual fund sales charges, 12B1 fees, bond markups etc.), a Best Interest Contract (BIC) will need to be in place. This written contract between the firm and the client states that the advisor is a Fiduciary, will consider only the clients best interest when making investment recommendations and will receive only reasonable compensation.

It is important to understand that some requirements of the new rule are straightforward while others are principle based and open to interpretation. It is this vagueness and the ability of clients to litigate should they feel their "best interests" have been violated, that will lead to industry changes in what types of accounts firms are willing to support.

Bank of America's Merrill Lynch division has already stated they find the BIC exemption inefficient, cumbersome to administer, confusing and an operational burden for the client and firm. Therefore Merrill Lynch has decided to no longer offer commission based accounts and will only maintain retirement accounts that are discretionary and fee based. Clients who do not want to participate will be forced to transfer their accounts to Merrill's on-line, self-directed portal (where no advice can be given) or to another firm. Many other firms are taking the same path (like J.P. Morgan Chase), while a few firms (including Morgan Stanley & Raymond James) have stated they will abide by the BIC exemption and still offer commission based accounts.

We at Romano have not come to a definitive decision as to how to best serve our clients and comply with the new DOL regulations. While the majority of our clients are already in our discretionary fee based management program, we still service and maintain transaction based accounts. These new rules are likely the precursor to even more regulatory changes that will impact taxable advisory and brokerage accounts in the future. Some of the unintended consequences that are likely to occur within the industry are, very limited investment advice, fewer IRA custodial choices and likely increased management fees to offset the costs to comply with the new regulations. One thing that will not change is our mission to provide the best service and advice possible for a fair a reasonable fee.

Doug Geisser
VP FIXED INCOME PRINCIPAL

Many of our stocks have been kindly rewarded in the latest rally for which we are grateful, though we expect things to abate and the market to come up for air. We continue to look for deep value, cash flow companies and focus on the long term. As for bonds, rate adjustments can be uncomfortable but we welcome the uptick in rates as it gives us an opportunity to put some sidelined money to work. Again, with a long term view rising rates are good for retirees, savers and investors as they get more cash flow, a welcome change from the low rate environment since the financial crisis. We don't want to get ahead of ourselves, but we view this recent trend in rates as more positive than negative.

Of course "the good," "the bad" and "the ugly" depend on one's point of view and political affiliation, things we hope to stay away from for purposes of this commentary. But with a new breed of President and the first without military or political experience both Trump supporters and detractors aren't sure what to expect, giving the feel of the political "Western." While the story line has yet to play out and the plot to thicken, let's hope that the market may finally have it right and is a reminder that things may moderate and not be as bad they seem. Time will tell.

During this respite from the political season we wish you the opportunity this holiday season to take some time in what really matters, family and health. We wish you warmth and thank you for your continued trust and confidence in us.

Joe Romano
PRESIDENT

SPOTLIGHT ON OUR CLIENTS

TALK ABOUT A MILESTONE!

Mort Harris just became a member of the centenarian club! He has been a client of Doug Geisser for over 30 years. Mort is a retired attorney and a fulltime fitness buff. He enjoys golf and the support of his wonderful family, who are all Romano clients as well. Congratulations on 100 years!

DANCING QUEEN

Rick Hemwall's client Delores Granite has been entering and enjoying dance contests for about 40 years. This year, when she entered the seventh annual Southern Heat Ballroom Dance Championships, she didn't leave empty handed. 93-year-old Delores won the "Iron Woman" award given each year to a dancer showing dedication and stamina in pursuit of dancing perfection. Keep it up, Delores!

ROMANO WEALTH MANAGEMENT ADDS NEW OFFICER

In June, Eric Bederman joined Romano Wealth Management as Chief Operating & Compliance Officer. Previously with Ernst & Young and Mesirow Financial, Eric brings over 20 years of experience managing broker-dealers and investment advisors. "We are happy to have Eric join Romano Wealth Management" says Joe Romano, who served on the FINRA Small Firm Advisory Board alongside Eric for three years. A native of the North Shore, Eric resides in Wilmette with his wife and children.

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ROMANO NEWS

Customer Withdrawal Procedures Enhanced

It is unfortunate that we live in an environment where it is extremely easy to impersonate someone in the online world. Based upon industry and law enforcement recommendations, Romano Wealth Management has upgraded security procedures regarding customer withdrawals. We now require all requests received by email, fax, or voicemail to be verified, directly with the requesting customer, by telephone prior to processing.

These upgraded procedures help us protect you by ensuring that all requests are genuine. If you typically send withdrawal requests to us by email, fax, or voicemail, please be available to receive our verification telephone call. We appreciate your understanding as we implement our new procedures. Please contact your portfolio manager if you have any questions.