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Financial Planning in the Trump Era: Finding Solid Footing Amid a State of Flux

The fundamental justifications for creating a financial plan are the same as they were a year ago, a decade ago, even a generation ago: With a comprehensive, well-thought-out and professionally quarterbacked game plan, a person gains a greater sense of control over their finances and a clear pathway for getting where they want to go in life.

But the tumultuous transition that has accompanied President Donald J. Trump's move to the White House is creating a heightened level of uncertainty across the American political, social, economic and financial landscape. And that lack of clarity is in turn impacting financial decision-making and planning. "In 40 years [as a financial professional], I've never seen anything like this," observes Certified Financial Planner™ Leon LaBrecque, who heads LJPR Financial Advisors in Troy, MI. "There's tsunami-level uncertainty."

While there are early indications that some policies the Trump Administration is considering pursuing could ultimately prove beneficial for investors and retirement savers, there's concern that other potential Trump policies could negatively impact the country's overall economic outlook, as well as peoples' individual financial well-being. Here a handful of financial professionals who've been monitoring developments in Washington, D.C., weigh in about potential Trump policies and how they might impact people financially.

Taxes: Many observers expect lower federal income tax rates for individuals and for corporations in the U.S. At the individual level, lower tax rates may bode well for people, potentially allowing them to save more toward retirement, for example. Lower tax rates also may make maneuvers such as converting a traditional IRA to a Roth IRA more appealing.

Also keep an eye out for potential elimination of certain personal tax exemptions and new limits on standard tax deductions, suggests LaBrecque. His firm has re-run more than 800 client tax returns based on potential tax changes floated during the early days of Trump's term and found that "about 75% of taxpayers will be positively affected by Trump tax proposals." They're most detrimental for single parents, he says, and most beneficial for high-income people.

What's more, says LaBrecque, "if the U.S. lowers corporate tax rates and institutes a territorial [taxation] system [versus the current worldwide system for taxing multinational businesses], the earnings of U.S.-based corporations will increase. This could translate into a significant [positive] shift in U.S equity values." Stock in these companies could perform better on the whole.

Also on the tax front, financial professionals such as Neal Van Zutphen, a Certified Financial Planner™ who heads Intrinsic Wealth Counsel in Tempe, AZ, say there's a strong chance lawmakers will do away with the federal estate tax. While that ultimately may be a good thing for wealthy people who wish to avoid taxes when transferring their wealth to others, a lack of clarity about the fate of the federal estate tax "may cause lots of planning uncertainty for many families," he says.

Historically, adds LaBrecque, tax policy changes have been rapid in recent instances in which a Republican President succeeds a Democratic predecessor. And he expects the Trump Administration likely will move quickly on the tax front, as George W. Bush and Ronald Reagan did early in their terms as President.

Requirements for financial professionals: Already the Trump Administration has signaled its openness to revisiting and perhaps revising or even removing new regulations championed by the Obama Administration and unveiled by the U.S. Dept. of Labor in the spring of 2016 that require more retirement investment advisors to put their clients' best interests first. The so-called **DOL Fiduciary Rule** applies to financial professionals working with peoples' retirement assets, requiring them to act as fiduciaries by always putting the interests of their clients first, above their own interests and those of their firm or the company (or companies) whose products and services they represent.

Absent such a fiduciary standard, a less stringent set of requirements called a suitability standard likely would prevail. It requires certain financial professionals to recommend products that are “suitable” to the client — that is, that the recommended security or product fit the client’s investing objectives, needs and circumstances. Unlike with fiduciaries, the allegiances of advisors who operate under a suitability standard ultimately lie first with their firm and/or the company whose products they’re recommending and selling. So while they’re required to recommend “suitable” products to their clients, the products they recommend might not be the *most* suitable in light of factors such as fees, commissions, etc. Just because a product is suitable doesn’t mean it’s the best fit for the consumer.

Immigration: “We think cracking down on immigration too firmly will shorten the job supply,” says LaBrecque. That could create wage inflation, which could cause the overall inflation rate to increase.

Macro-economic factors: “We think clients should be preparing for **higher inflation**,” he says. They should also prepare for **higher interest rates**. To hedge against possible increases in both inflation and interest rates, he’s recommending certain clients consider using floating-rate fixed income funds along with TIPS (treasury inflation-protected securities) for the fixed component of their investment portfolios.

Equity investments in vehicles tied to the stock market are solid hedges against inflation, particularly when the inflation rate is under five percent, according to LaBrecque. Above that level, he suggests looking to commodities and real estate as inflation hedges.

Expressions of support by the Trump Administration for **infrastructure investmen**t “is long overdue, and the concept of an infrastructure bank is probably a very good one, not creating immediate deficits, but allowing fiscal stimulus,” LaBrecque says. As a result, his firm is recommending clients consider bolstering infrastructure investments in their portfolios.

Global trade: The Trump Administration’s apparent support for more restrictive international trade policies could end up hurting the U.S economy, LaBrecque says. “In today’s global world, a trade war is one of the last things we want to see.” A resulting U.S. economic slow-down likely would negatively impact individuals and families on a variety of levels.

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