

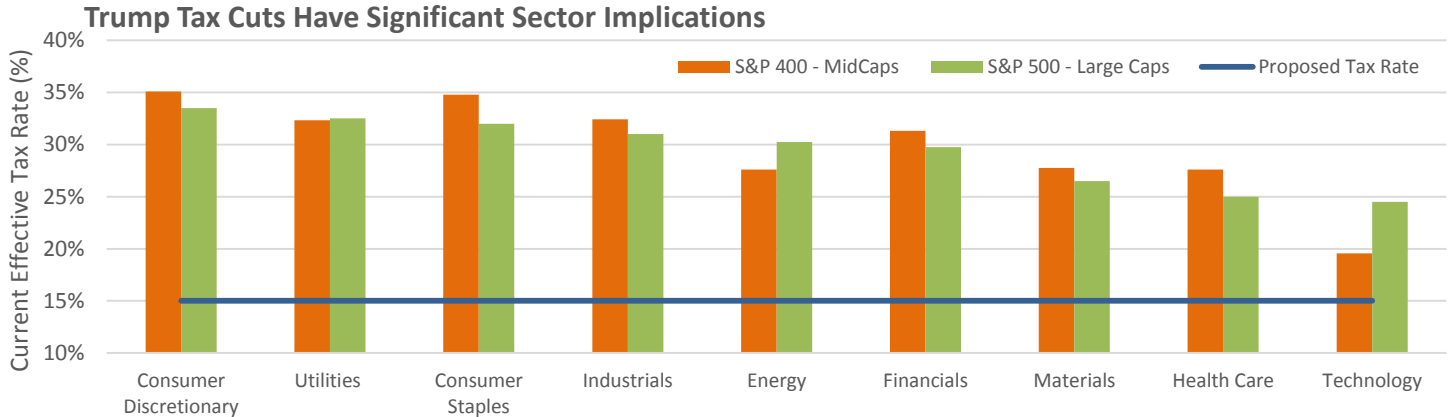


Why Sector Investing Matters Today – Trump Tax Cuts

Elkhorn Investments – May 2017- By [Graham Day, CFA](#) – Senior Vice President

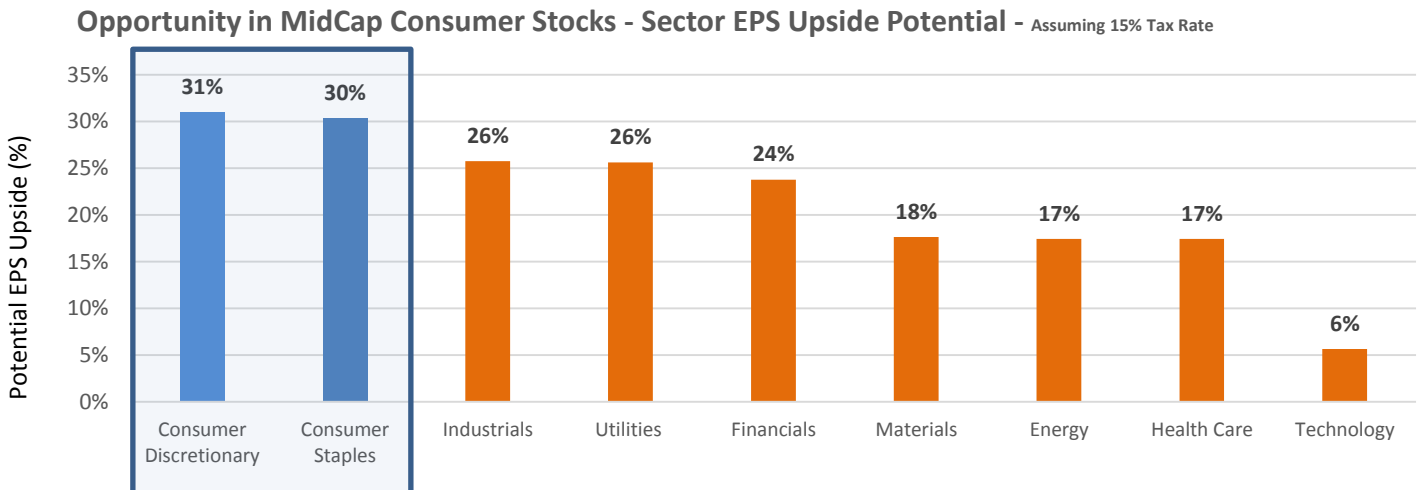
We ran across an interesting [Bloomberg post](#) last week by Bloomberg Chief Equity Strategist Gina Martin Adams, highlighting the effective tax rates, or average rate at which a corporation is taxed and the impact of a Trump cut to 15% tax rates. In summary, the impact of these tax cuts will vary greatly at the sector level and offer opportunities for sector-based investors.

If Trump’s flat 15% rate is implemented, a compelling case can be made for sector-based investing: the sectors with the high effective tax rates would benefit most and see a jump in after tax earnings. Mid cap consumer discretionary, for example, has an effective tax rate of 35% versus only 24% for large cap technology and 19% for mid cap technology.



Source: Bloomberg L.P. and Elkhorn Investments as of April 26, 2017

Two sectors that stand to benefit from Trump’s tax cut would be consumer stocks, particularly within the midcap space. A flat 15% rate would boost mid cap consumer discretionary EPS by 31% and midcap consumer staples by nearly 30%. On the other hand, midcap technology stocks would only have EPS bumped by 5%.



Source: Bloomberg L.P. and Elkhorn Investments as of April 26, 2017

The [Elkhorn S&P MidCap Consumer Discretionary ETF \(XD\)](#) offers exposure to the consumer discretionary sector of the S&P MidCap 400® Index and contains several widely known companies including Dunkin’ Brands, Panera and Domino’s Pizza. The [Elkhorn S&P MidCap Consumer Staples ETF \(XS\)](#) offers exposure to the consumer staples sector of the S&P MidCap 400® Index and holds Sam Adams (Boston Beer Co.) and Dean Foods. The five of these companies have current effective tax rates averaging more than 37% according to Bloomberg.

Elkhorn currently offers the only lineup of midcap sector ETFs. To learn how Elkhorn ETFs can play a role in your clients’ portfolios, contact us at 630.384.8700 or visit [elkhorn.com](#). An investor should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. To obtain a prospectus containing this and other information, please call 630.384.8700 or visit [www.elkhorn.com](#). Read the prospectus carefully before investing.