

PETERSON FINANCIAL SERVICES

Limited Liability Company ♦ Registered Investment Advisory Firm

FINANCIAL
FOCUS

*THE STAGE IS
SET FOR
IMPROVED
ECONOMIC
GROWTH. THE
MARKETS
SHOULD
RESPOND.*

In This Issue:

- Quarterly Market Recap
- Now that tax policy is improved, we can focus on other pressing issues to increase our prosperity and national security.

Fourth Quarter 2017

January 3, 2018

QUARTERLY MARKET RECAP

2017 turned out to be a fantastic year in the markets. This is not unwarranted, as GDP growth has exceeded a 3% rate for the last three quarters, corporate earnings have been healthy, employment has improved and economic optimism grew. The reason for this is a combination of actual identifiable policy improvements through the rolling back of oppressive regulations (22 have been repealed for every one enacted), and the hope of tax relief. That relief just came late last month and will soon work its way into the reported data.

Last quarter, the DJIA surged 10.33%, the S&P 500 added 6.12%, the NASDAQ gained

6.27% more and the Russell 2000 picked up an additional 3.00%. Foreign markets moved forward by 4.93%. Even the bond market improved while the Federal Reserve continued to raise rates, with the Dow Jones Corporate Bond Index gaining 1.27%. The recent narrative that our economy cannot expect to do better than sub-2% growth has been proven wrong. The next urban legend to be dispensed with is that tax rate levels do not affect decision-making and incentives and will result in higher deficits. The reality has always been, and will be proven again to be, that revenues will rise and if we do have higher deficits, it will be due to increased public spending.

THE NEW TAX PACKAGE ISN'T PERFECT, BUT IT IS SUBSTANTIALLY BETTER THAN WHAT WE'VE HAD

We've spent much time recently discussing tax policy because along with regulations, no public structure has a greater impact on economic growth, and we need much more growth. Let's dissect some of what is different and positive in this new law.

But first, we find it curious that so few Americans think about government policies in terms of their own, and fellow citizens', self-interest. The debate among the ruling class and its media toadies seems to always discuss budgets in terms of what the government will gain or lose. But what about what we taxpayers gain or lose? The government is supposed to - and used to - exist to serve the citizenry, not the other way around.

It has been proven that an economy based on freedom that provides more people with a higher level of prosperity is one in which less government is needed because the people can better take care of themselves. But this doesn't serve the interests of politicians whose very relevance depends on others' dependence on them thus providing them power, and whose very livelihoods are provided for by us taxpayers. So forget

about what tax cuts "cost" the government. Rather, focus on what they do to benefit you personally and the country generally.

This year, individuals and companies will pay over \$6 trillion dollars to our governments – a record. Only a few countries even have a GDP that large. It's an obscene amount of plunder and a huge percentage of it is wasted on counter-productive programs. We were alone in punishing our businesses with the highest tax rate in the world and double-taxation. As we've explained before, this cost is transferred to employees, shareholders, and customers thereby hurting regular people at all income levels. The current tax code is 1000 times longer than the US Constitution at over 82,000 pages. The first income tax code a century ago was only four pages long. Compliance is virtually impossible and wastes hundreds of billions of dollars each year. The IRS is the scariest agency in America, has been wielded capriciously and politically, and is coercive in nature as government is the only entity in our society which can force otherwise free people to bend to its will under penalty of fines and imprisonment. The tax code is riddled with loopholes benefiting mainly a connected few.

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Reform is long overdue, but we'd have liked to see this reform go farther and be simpler. We still have seven tax brackets, which should have been collapsed to two or three, but at least the income bands are expanded and most rates are lowered, resulting in each of us who pays taxes paying less per dollar of income. Deductions are curtailed or eliminated, aiding simplification, and the combination of these expanded rate bands and lower rates, along with a higher standard deduction, offsets most lost deductions for almost all people. Estate taxes, the most immoral taxes of all, are eliminated for all but the largest estates, reducing the number of small farms and businesses which will need to be liquidated to satisfy government greed. That tax should be permanently extinct for all. And the ObamaCare individual mandate was repealed.

The most overdue benefit of all is corporate tax reform. The federal rate of 35% is now 21% moving from the highest in the industrialized world to below the OECD average of 24% and converting to a territorial system. This will draw capital back to America and dry up so-called "tax inversion" strategies. We now have 100% expensing as opposed to depreciation schedules. There is a one-time "repatriation" tax of 15.5% so that previously-earned income US companies have held overseas to avoid confiscatory rates can now be brought home and invested in America's economy. About \$3 trillion of this cash is sitting in foreign accounts and if only half of it comes home in the first year that will result in a \$225 billion windfall in additional revenue to the government, or about a third of our 2017 deficit. Remember that this is being characterized utilizing static analysis as adding

to the debt to the tune of \$1.4 trillion over ten years, or \$140 billion per year. That windfall puts a huge dent in that "deficit". A historically more realistic and accurate dynamic analysis shows that this new growth incentive not only will not add to the debt, it will reduce it. If we keep spending in check, we will run surpluses resulting in paying down the debt. The problem here is that based on past experience, we cannot count on our politicians not increasing spending.

Even before this tax reform was passed, we were already running at a 3% GDP clip as explained earlier. Add the resulting stimulus from this tax package, and we could easily see 4% to 5% growth sustained for the near future. This is not without precedence. We've reported before that previous periods of tax rate reductions have stimulated the economy to 6% and above levels.

Let's not forget how important higher rates of economic growth are for other areas. In addition to providing a larger GDP base upon which these lower tax rates are levied resulting in higher tax revenues, there are other benefits. Higher corporate after-tax earnings mean that a given company's stock is worth more, so shares rise in value. Most Americans, including all of us, have a significant portion of our assets in the stock market. Our net incomes increase, but so does our net worth. Companies with more after-tax income can hire more workers. Workers with more income can buy more goods and services. This in turn will feed more demand. Once we realize the positive effects of this law, we can chisel away at further improvements.

"Opportunity is missed by most people because it is dressed in overalls and looks like work."

- Thomas Edison

Pursuant to SEC Rule 204-3 (C) of the Investment Advisors Act of 1940, we hereby offer, without cost, a copy of our "Disclosure Statement", Form ADV Part II, which is the document attached to your copy of our Service Agreement. Please e-mail us, or mail us, a written request if you'd like another copy and we'll send it in February after we update our annual filing. Also, in conformance with Regulation S-P of the Gramm-Leach-Bliley Act, we are required to provide annual notice of our Privacy Policy. Our policy is posted to our website, and is mailed to each client.

ABOUT PETERSON FINANCIAL SERVICES, LLC

As an aside, we wish to remind our clients of our various services. While we've specialized in portfolio management over the last several years, we continue to provide financial planning and insurance services. Longtime clients may have forgotten this, and newer clients may not be aware of this. Additionally, we build our business through referrals, and much appreciate them. Please keep us in mind as you come across friends, family and colleagues who might benefit from our financial services. We appreciate your business.

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