FINANCIAL FOCUS

PETERSON FINANCIAL SERVICES

Limited Liability Company ◆ Registered Investment Advisory Firm

OUR NATIONAL RETIREMENT SYSTEM IS ON SHAKY GROUND AND SHOULD NOT BE COUNTED ON.

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QUARTERLY MARKET RECAP

It's official: Trump's trade war is freaking out the markets, and for good reason. In a period of otherwise great economic news, these policies will hurt growth and employment. See our last newsletter. Observers could be excused for thinking the market has been zig-zagging sideways, but in reality there has been some steady progress. Our portfolios have maintained positive relative strength to the indexes. Favorable employment figures and wage growth as well as rising GDP data are building on the gains of 2017. For the quarter, the DJIA limped forward 0.70%, the S&P 500 added 2.94%, the NASDAQ romped 6.33%, the Russell 2000 forged ahead 7.43% but foreign equities haven't fared as well, declining 3.46%. The Federal Reserve continued to raise rates and telegraphed an additional expected increase by year-end so the Dow Jones Corporate Bond Index lost another 1.07%. The effects of the new federal tax rates will finally show up in the economic data for the second quarter and we wouldn't be surprised to see annualized GDP growth in the 3% - 4% range as a result for 2Q18.

As mentioned earlier, offsetting those positives is concern over a trade war, which is playing out now. Our initial hope was that it would be contained, but it appears to be ramping up and everyone will lose this battle.

POLITICIANS ON BOTH SIDES OF THE AISLE HAVE PUNTED THEIR RESPONSIBILITY ON SOCIAL SECURITY

A couple weeks ago it was announced that this year the government will need to take money out of the Social Security "Trust Fund". We put quotes around that because there's very little "trust" involved here.

Long time clients of ours know we've been mentioning the bankruptcy of this program for years, and may be wondering about this being the first year it appears there are deficits. But this is an accounting fiction. This is the first year the *principal* will be dipped into, but from a cash flow perspective, revenues haven't covered pay-outs since 2009. Since then the annual deficit was made up from *interest* on the trust fund assets. But this in itself is a fraud as those "assets" are a pile of IOUs from one government agency to another. The fact is, your payroll taxes have been misdirected from this trust fund to the general fund and spent on all the other things the government spends money on since 1964. Private citizens would go to jail for doing this. Your "account" is a ledger entry that has no assets backing it. Really, this Ponzi scheme has been bankrupt already for almost a decade.

Now, the interest on those IOUs isn't enough to cover the annual deficits and they have to start selling off the "assets" to make payment obligations. Last year it was $41 billion. It will only grow from here. And most of the baby boomers have yet to draw off the program!

By 2034 the entire pile of IOUs will be exhausted. This will necessitate slashing benefits or raising taxes to growth-damaging levels, or both. It's a moral outrage. Cato Institute economist Michael D. Tanner estimated in 2015 that Social Security faces a long-term funding shortfall of $25 trillion and Medicare is at $48 trillion. That's *trillion*, not billion. It's even worse now three years later.

This problem has been known of for years. A dozen years ago President Bush suggested a modest plan to bring solvency to the system. For workers under age 30, who *voluntarily* chose to, they could put 2 percentage points of the total 15.3% combined employee/employer contribution into a "Social Security IRA" that could be invested in the markets rather than this pile of IOUs. They would be actual accounts with actual assets that would have a designated beneficiary and be passed to heirs.

This was proposed to be strictly voluntary, only impacting 13% of payroll taxes for that person, and only offered to young workers so there would be no risk to current or near-retired people. And, it would be completely consistent with the American tradition of property ownership and free enterprise. You would have thought he was suggesting lining up Granny against a wall and gunning her down, from the crazy criticism he got. Back then, if we'd done some version of that, this would have been fixable. Now it may be past the point of no return. Whatever solution comes now, it will be far more painful and likely mandatory.

Since the Great Society's War on Poverty in the mid-1960s, the U.S. has spent more than $15 trillion on means-tested entitlement programs. Between 1960 and 2010 federal entitlement spending has grown from 19% to 43% of all federal spending. In 1960 this spending was only $24 billion or $134 per citizen. By 2017 this has soared to $7,200 per citizen. Demographics suggest this will only get worse. Much of this has been financed by deficit spending, or borrowing, contributing to our now $21 trillion debt. And with interest rates rising, servicing that debt will become a massive portion of annual expenditures. This is all because our irresponsible politicians are too cowardly to do their jobs. Adm. Michael Mullen, former chairman of the Joint Chiefs of Staff warned, "The most significant threat to our national security is our debt". This is not just a fiscal problem; it's a moral crisis encumbering our future citizens.

The legacy of big government is about far more than exploding debt. It's about the loss of individual freedom. The US now stands at number 16 in the world ranking of economic freedom, an appalling decline from our number 2 ranking just 20 years go.

In "The Road to Serfdom", Frederick Hayek warned of the insidious policies of Big Government that have always led to serfdom. No matter how benevolent the aims of government, the loss of individual freedom is the debilitating result of increased government control. And many in our population want to go even deeper down this black hole! They advocate "free" government-provided everything, and ultimately the relinquishing of our right to make our own decisions. Former U.S Senator Tom Colburn wrote, "Big government's false promise of easy living and smug security has wreaked havoc not only in the nation's finances, but also in the American ideals of self-reliance and human dignity." American Enterprise President Arthur Brooks has said, "We have become a nation of takers, not makers." And he's right. In 1950 one in 25 Americans received any government aid, but by 2012, it was one in three. That's shocking.

Clients of ours know what we've been advising for years: if you are taking Social Security now, you likely will not be affected by this crisis. But if you are under age 50, you will probably face some sort of means-tested reduction in your benefits and workers will surely see their FICA taxes raised. If you're under age 40, write off any Social Security in your retirement planning. The lifestyle you'll have then will depend on your own saving and investing now.

"I am for economy in government not to save money, but to save people."

- President Calvin Coolidge

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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CONTACT

1726 Clarkson Street
Denver, CO 80218

Phone: (303) 831-4800

E-Mail:
kirk@petersonfs.com

Hours of Operation
7:30am–5pm M-F

Visit us on the Web!

www.petersonfs.com