FINANCIAL FOCUS

PETERSON FINANCIAL SERVICES

Limited Liability Company ◆ Registered Investment Advisory Firm

COSTS LEVIED AGAINST THE WEALTHY ACTUALLY HURT THE MIDDLE CLASS MORE.

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Fourth Quarter 2019

January 2, 2020

QUARTERLY MARKET RECAP

The last year was a bit of a roller coaster ride, but a satisfying one. The strong first quarter clawed back much of the losses from the end of 2018, followed by much more subdued gains in the middle of the year, ending in new index records during the fourth quarter. For the last quarter, the DJIA gained 6.02%, the S&P 500 added 8.53%, the NASDAQ ramped up 12.17%, the Russell 2000 advanced 9.52%, and foreign equities rose 8.71%. Indexes are a tad under all-time highs. The Fed reduced rates three times in 2019 but has indicated no further movements planned for 2020. As a result, the Barclay's Aggregate Bond Index slowed down to a 0.19% gain. Concerns over unsettled trade issues were clarified as both North American and Chinese deals took shape. Additionally, Brexit uncertainty was put to rest, and completion of that exercise is eminent. The expected House vote to send articles of impeachment of President Trump to the Senate occurred as predicted a few weeks ago. Acquittal is all but assured, putting that sorry spectacle in its grave soon. This is a lot of stuff to happen in such a short period of time, but it's generally positive for the markets. With resilient GDP growth, blistering employment, and controlled inflation, we expect more likely upside than downside going into 2020 and the presidential election season.

LET'S NOT IGNORANTLY AND UNJUSTLY PIT SOME SEGMENTS OF OUR CITIZENRY AGAINST OTHERS

Several of the presidential candidates trying to replace President Trump have offered a smorgasbord of ideas for extracting more of the earned property from wealthier citizens to address perceived inequality injustices. One has taken the form of a direct wealth tax levied on assets – not income – ranging from 2% to 6% annually. Setting aside the fact that this is blatantly unconstitutional (not that this has stopped politicians of all stripes anytime recently), the practical application of such a tax is problematic. It will do great harm to non-wealthy people.

With similar salesmanship, over a hundred years ago, progressives put in place the income tax under the guise that it would only affect rich people. And in the first year it did only hit 2% of households. But after five years it ensnared 20%, and in only ten years almost 40% were roped in. We all know what it's turned into by now.

Simple math reveals how gullible we'd have to be to think this will not sift down to the middle class. Adding up just Sen. Warren's version of this tax set against her spending proposals of tens of trillions in new largess reveals that even if she confiscated the entire assets of these rich she says will pay these taxes it can't come close to paying the bill.

Part of this plan is "marking-to-market" assets that have not been liquidated so she can levy capital gains taxes against them. This means instead of paying capital gains taxes out of the proceeds of a sale, which provides the necessary liquidity, the taxpayer would have to pay the tax *each year* on the asset's gain when it hasn't yet been sold. In order to do that, sales of a portion of that asset, or other assets, would be forced, reducing the holding. This will have an enormous depressing effect on capital investment and would drive down the market as it adjusts for the reduced after-tax value of these assets. Eventually, entire positions would need to be liquidated just to pay taxes. Who invests for the sole benefit of the government?

One problem is, these rich people employ others and provide the capital for business expansion that benefits even the lowest wage earner in our economy. Those jobs will go away. If a 40-year-old entrepreneur owns assets worth about $500 million, he'd fall into the middle of the asset range affected. At just the lowest 2% rate, levied over the remainder of his normal lifespan, he'd have more than half of his property taken from him. Then, when he dies, his heirs no longer get a stepped-up cost basis, so they pay even more. In the end, about three-quarters of his lifetime of hard work, which he alone earned, is confiscated from him.

This will discourage investing, and most of all the more-risky investing necessary to advance human discovery and living standards. The potential payoff will no longer be worth the risk. The flow into the capital markets will be reduced, and employment and wages will suffer for all. Plants and equipment will not be invested in, so those who provide that will experience a drop off in business, sending a ripple effect through the entire global economy.

How would some of these assets even be valued so a tax rate could be applied to them? In our current system of paying capital gains taxes on only realized gains, this is a non-issue because whatever the sale proceeds are, is what the asset was clearly worth, and that's a defined value. But in this system, illiquid assets are harder to attach a value to. A simple example is your home. You may have an idea of what it's worth, but until you actually find a buyer who pays for it, it's only a guess. Imagine if you had to pay a tax every year on the "value" of your home, even if you didn't sell it. Who says what that value is? This would be a similar tax to your property taxes, except it would be in addition to that and on all your assets! And what if it goes down in value? There is no provision for losses.

This doesn't even address the moral component we often bring up, but rarely hear form others. That is the issue of just dreaming up new ways to take the justly-earned property of one segment of our citizenry to give it to another segment that did not earn it, primarily to buy votes to stay in power. Is this limited government? This robs us all of our liberties, does harm to our economy, and adversely affects everyone down the economic ladder as employment opportunities are curtailed and compensation at all income levels is reduced. And, this diverts investment decisions from the voluntary direction chosen by the people whose capital is being put at risk to those inefficient and bureaucratic government employees who it doesn't belong to. This is not how a free society operates.

The American miracle over the last couple of centuries has been our economic and political system of freedom that has allowed each of us to pursue our own interests with our own money without interference from centralized planners so common in socialist and communist countries. A cursory study of which of those two competing systems produces the higher standards of living and contentment in life isn't even in question. So why are we doing this? Simply, greed and envy.

We hear a lot of the supposed greed of people who just want to keep their own money and take care of their own business, but what about the rampant government greed that wants to take away other people's money just because those have it, and they want it. This is the politics of envy and is unbecoming the self-reliant people we used to be, as well as short-sighted. How long will we remain prosperous and free under those conditions?

"Socialists don't like ordinary people choosing, for they might not choose socialism."

- PM Margaret Thatcher

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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