

PETERSON FINANCIAL SERVICES

Limited Liability Company ♦ Registered Investment Advisory Firm

FINANCIAL
FOCUS

*THERE'S NO
SUCH THING AS
A FREE LUNCH,
NO MATTER
WHAT BIG-
GOVERNMENT
POLITICIANS
SAY.*

In This Issue:

- Quarterly Market Recap
- The current political leadership of our nation is proposing to change forever the relationship between us citizens and our government. It will come at a steep price.

Third Quarter 2021

October 1, 2021

QUARTERLY MARKET RECAP

For the first half of this year, each quarter endured some volatility, but ended with decent gains. But the third quarter is historically the weakest, and September is the worst-performing month, and that was the case this year. Equity markets slid, and fixed-income moved laterally. The implications of massive proposed government spending, tight labor markets, supply chain disruptions, potentially increasing taxes and continued Federal Reserve loose monetary policy leading to increased inflation are being taken into account and are creating short-term anxiety. This has led to focusing solely on strong corporate earnings performance. For

the last quarter, the DJIA shed 1.91%, the S&P 500 just barely rose 0.23%, the NASDAQ drifted down 0.38%, and the small-cap Russell 2000 notched a 4.6% decline. Foreign equities retreated 0.35%. Treasuries leveled off, helping bonds, with the Barclay's Aggregate Bond Index barely rising 0.05%.

GDP gains continue, and our economy is doing better than many others. Until very recently, proposed policy changes in Washington were ill-defined and the markets had little firm data on new policies to analyze, so they continued to act on the pro-growth policies of the previous administration. But now we have proposed bills and nervousness is increasing.

ALL THESE PROPOSED "FREE" BENEFITS AREN'T FREE AND THE COSTS WILL CAUSE MAJOR ECONOMIC HARM

Over the past several months, the proposed spending programs from Washington tally up enormously. The "infrastructure" bill, with a \$1 trillion price tag, has only 18% of it allocated to actual infrastructure, as everyone has understood it since the invention of the term. On top of this, is another \$3.5 trillion proposal for the most massive expansion of government into the lives of free citizens in the history of any government. And, honest analysis of this proposal puts the real price tag at closer to \$5.5 trillion when accounting gimmicks are removed. This is larded on top of the previous pandemic emergency spending of about \$3 trillion, which itself is on top of regular federal government spending. And that last category is already about 24% of GDP. This is a lot of money we don't have.

President Biden recently said it's time for the wealthiest Americans and corporations to "start paying their fair share". Setting aside that no one who says this ever defines what that fair share is, or that the top 1% of earners already pay 40% of the taxes, there isn't enough money among this group of

people to fund the government for more than a few quarters. We think these politicians know this. So then, what will this mean?

The Ways and Means Committee draft tax increase which leaked out last weekend reveals a \$2.2 trillion tax bill. You may have already noticed that this doesn't come close to covering the aforementioned spending. Never mind.

The real kicker is that higher taxes are on the way for far more than the "very wealthy". Politicians love to talk about giving everyone an opportunity to achieve the American Dream, except once you get there, they want it. The top individual rate rises to 39.6% from 37%, but it now starts at \$400,000, and only \$450,000 for couples, not the previous \$523,600 and \$628,300 figures. This is a massive marriage penalty, and snags substantially more taxpayers into the highest rates. Add the 1.45% Medicare payroll tax and the 3.8% Obamacare investment income surcharge, and you're looking at nearly 45%. For those over \$5 million, there's an extra 3% penalty for success. And none of this factors in state and local income taxes. Our clients are all over America, so look out if you live in New York or California.

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These are middle to upper-middle class income earners, not the “very wealthy”. And even this won’t cover the bill. Not only is this costly financially but the highest cost is an ever-increasing intrusion into our lives and liberty, and facilitates even more destructive dependence on government and the politicians and bureaucrats who run it.

Even if you aren’t in these income categories, this will adversely impact your own financial condition. The markets will take a hit, and portfolio values will follow. As well, two-thirds of Americans are employed by small businesses. Eighty percent of small businesses are organized as Sub-S corporations, which means the company financials are reported under the owners’ personal tax returns. These people are the employers of most of the American workforce. Plus, this Democratic proposal zeros out the 20% deduction on qualified business income. These business owners can’t just absorb these additional costs without somehow passing them on. And the primary method will be cutbacks to their workers’ pay and benefits, or entirely eliminated jobs. This is a recipe for a massive recession, on top of pandemic weakness, supply chain imbalances, higher inflation and eventual higher interest rates.

Additionally, companies will see their top rate rise from the current, competitive 21% to 26.5% before state and local levies, pushing the average corporate rate to 31%, making it the highest in the developed world. We just fixed this competitive disadvantage in 2017 and it’s been working brilliantly. Now we’ll go back to overseas “tax inversions” as

companies struggle to remain competitive in the global marketplace. Who dreams this up?

The estate tax proposals are similarly destructive. The administration’s proposal includes major increases in capital gains taxes (which will hit all of us), including imposing capital gains taxes at death on unrealized gains. That’s right, elimination of the stepped-up basis that has been a cornerstone of investment and tax planning for decades. This will result in the necessary liquidation of assets to satisfy the tax man. The House plan reverses the estate tax exemptions put in place in 2017. The exclusion will be roughly halved, costing more Americans millions of dollars in taxes. That rate hits estates at 40%! This will triple the number of American estates subject to this immoral tax. All of this betrays a mindset that says the State – not you – has first claim on the fruits of your labor. Welcome to Orwell’s 1984. And it won’t even raise much revenue. It will merely destroy the finances of many families.

Joe Biden asserted this additional \$6 trillion-plus spending will cost nothing as he tweeted, “My Build Back Better agenda costs zero dollars”. We don’t know what’s worse; if he believes that, or he thinks we’re stupid enough to believe it.

This madness needs to stop or we’ll lose the greatest country and most prosperous economy in the history of mankind. And once lost, it will not be regained. A free people don’t hand over their liberty and wellbeing to an oppressive power structure. We need to wake up before it’s too late.

“How do you tell who’s a communist? It’s someone who reads Marx and Lenin. And how do you tell an anti-communist? Well, it’s someone who understands Marx and Lenin.” - President Ronald Reagan

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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.
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ABOUT PETERSON FINANCIAL SERVICES, LLC

As an aside, we wish to remind our clients of our various services. While we specialize in portfolio management, 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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