PETERSON FINANCIAL SERVICES
Limited Liability Company ♦ Registered Investment Advisory Firm

FINANCIAL FOCUS

Third Quarter 2024

October 1, 2024

QUARTERLY MARKET RECAP

With a few bumps along the way, the upward momentum of the markets has continued through the third quarter. Lagging asset classes haven't necessarily caught up, but they've shown signs of life. The Federal Reserve's much-anticipated loosening cycle has commenced, with a healthy half-point cut and additional rate cuts through the balance of the year are priced into the futures markets.

Last quarter the DJIA hit a new record high, rising 8.21% and has breached the 42,300 level. The S&P 500 also hit a new all-time high adding 5.53%, and while the NASDAQ backed off its high, it gained 2.57%, just barely keeping it in the lead year-to-date. The small-cap Russell 2000 is finally joining the party, tacking on 8.90%. Global stocks added value with a rise of 6.01% rounding out the equities. The bond market advanced in anticipation of the September Federal Reserve Open Market Meeting, but has leveled out since. The Barklay's Aggregate Bond Index picked up 5.44% last quarter. Inflation is behaving well enough now to focus the Fed's concerns around a potentially weakening economy. But while labor markets have weakened, they aren't weak. Corporate earnings and economic growth are still positive and leading up to the election, not much will derail that. However, many economic policies will change in 2025 and 2026 impacting us.

ONCE AGAIN, THE TERRIBLE IDEA OF A WEALTH TAX EMERGES, BUT KNOW THAT WE WILL ALL PAY IT

Vice-president Kamala Harris, who became the Democrat party's presidential nominee upon the withdrawal of President Biden, supports a radical new (and very possibly unconstitutional) tax that she calls the "billionaire minimum tax". But her proposal engulfs taxpayers worth $100 million, not just billionaires, and even these people will not be the ones hurt most by it. Their wealth is so vast that the effect on their standards of living will be unnoticeable to them. This is because at that level, they don't spend the majority of their net worth; they invest it. But what they will have to do to pay it, will adversely impact anyone who has money invested in the markets. Her plan is to levy taxes on *unrealized* capital gains.

Notwithstanding the blatant unfairness of assessing taxes against "income" that hasn't actually been earned yet, may never be if values decline later, and isn't a result of an actual sale - the proceeds of which would allow the cash liquidity needed to pay that tax, the unintended consequences of this would catastrophically disrupt markets.

It would tank the stock and many real estate markets, virtually dry up initial public offerings, and hit everyone who has money in these markets via qualified retirement plans and after-tax brokerage accounts. It would put a lid on incentives to invest at all.

Billionaires, on their own, hold more than $5 trillion in stocks, or 7% of the entire market. Public stock is about two-thirds of their wealth. This would force them to sell many hundreds of billions of dollars of stock to pay for their wealth tax obligations. The stock market, by effective definition, is the embodiment of supply and demand. Intraday stock fluctuations are a reflection of the tug-of-war between what the buyer is willing to pay and what the seller is willing to accept. Forced sales will create excess forced supply which will drive down prices for everyone, even those trying to accumulate and hold their shares. And, the most innovative, fastest-growing and profitable companies will be hit the hardest. This is because unrealized capital gains are currently concentrated the most in these companies.

And this wouldn't be a one-time problem. We pay taxes each year, so these bills will come due annually, forcing continual selling.

POLITICIANS, WHO HAVE NEVER OPERATED IN THE REAL WORLD, PROPOSE AND MAKE POLICIES AND LAWS THAT ARE ECONOMICALLY HARMFUL.

In This Issue:

American taxpayers with assets of over $100 million hold about $4 trillion in unrealized capital gains in shares of privately-held companies. Selling shares in these companies to pay the tax bill, where markets are not liquid, would be an even heavier burden. Sales of these companies would disrupt their growth and force liquidation and the unemployment of their employees, since these companies are managed by their owners, and often that owner's worth is concentrated in that firm. As a result of this, Harris' plan exempts from this tax the ultrarich investors who have 80% of their wealth in illiquid, non-tradable assets. So what do you think this would distort? There would be a major incentive for the wealthiest Americans to take their currently public companies private - de-listing them, or not take their growing private companies public in the first place. This would shrink the size of public markets, hurting all investors, and it would eventually result in the projected revenue from this tax being far reduced – which was the flawed point of all this carnage.

Our public markets are already shrinking due to mergers and other reasons. In 1996 more than 8,000 companies were listed in the U.S. Now, there are fewer than 5,000. Today, over 700 private companies are worth over $1 billion and 40 of them are worth over $10 billion. OpenAI and SpaceX are worth over $100 billion. So, private markets can support the capital needs of large companies. These two companies would never go public, depriving other investors like us to profit from their growth. This tax would force even more companies that are currently public to de-list their shares. Common sense says this is dumb.

Over ninety percent of investors do not meet the requirements to invest in private markets, so this shrinkage of public markets would be devastating.

All of this would be on top of Harris' plan to increase personal income tax rates when the current ones expire at the end of 2025. Her proposal sends all of the federal rates higher (state and local taxes are added to this). The top rate would go from 37% to 39.6%, the top capital gains rate to 33% from 23.8% and the corporate rate to 28% from 21%. This last one will push America back to being one of the least competitive nations from one of the best today, and re-incentivize the "tax inversions" of previous years that were so roundly criticized. Lest we fall into the trap of thinking all of this will only affect the top earners, who we may not be among, don't forget they are the employers. Any additional money they must divert to the Treasury is money they can't use to invest in innovation, others' jobs and incomes.

As we have documented many times in the past in this publication, our fiscal problem, and the deficits and mounting debt spawned by it, is not fundamentally a lack of revenue. Tax receipts are higher than they have ever been. Rather, it is a complete failure of spending discipline.

But beyond pure economic policy mistakes, this betrays a more sinister and unjust belief, which is that the government has first claim on your money – the fruit of your labor – and they will decide how much of it they are willing to let you keep.

"The Federal Government's most useful role is to expand the incentives and opportunities for private expenditures by cutting the fetters which hold back private spending."

- President John F. Kennedy

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.

Financial Focus is a quarterly market letter published by Peterson Financial Services, LLC, a Denver, Colorado Registered Investment Advisory Firm specializing in investment portfolio management and financial advisory services.

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