The Future?

Well, the American people have spoken, and Donald Trump will be the next President.

What does that mean for the economy, taxes and investments?

·**Tariffs:** Trump has promised more tariffs, and based on his first term, I see no reason why he won't follow through on this. Tariffs are a surcharge on the price of a good coming into the US. A tariff increases the price of a good and that tariff is paid by the ultimate consumer. Tariffs are not paid by the country of origin, they are paid by the buyer. Think of a tariff as a super-sized sales tax. Tariffs are inflationary. Why? Because they instantly increase the price of a product. Buying specialty steel for your manufacturing business that is subject to higher tariffs? Higher prices. Buying a vehicle that is subject to higher tariffs? Higher prices. Tariffs, if broadly imposed, will raise prices. If you don't think you buy imported goods, or goods from China, I would challenge you to start reading the "Made in..." labels.

·**Tax Policy:** Tax policy, which I have studied and worked with for over 40 years, should generally achieve 2 goals. One is to raise money. The other is to encourage or discourage certain behaviors. Let's look at the implications of several Trump tax proposals:

o Tax Rates: Trump has promised to lower tax rates. If he has a cooperative Congress, which it looks like he will, I see no reason why that will not happen. Good or bad? Well, if you lower taxes but do not lower spending by the same amount you will increase the budget deficit (tax revenue minus spending.) This will in turn increase the national debt, the money the US Government has borrowed. More demand on the credit markets will likely increase interest rates. More inflation. The 2017 tax cuts were estimated by the Congressional Budget Office to increase the budget deficit by $1.9 trillion over the 10 years from 2018-2028. Assuming the tax cuts are extended and the budget is not cut proportionately, there will be more deficits and more debt, which will be paid for by our children and grandchildren.

o Taxation of Social Security benefits: Trump has promised to end the taxation of Social Security benefits. This, if accomplished, will tend to benefit higher income taxpayers, who are more likely to pay taxes on their Social Security benefits than lower income taxpayers. It will also weaken the Social Security system, as the majority of the taxes on Social Security benefits get paid back into the Social Security Trust fund. Less taxes, less money in the Trust fund. If enacted, this provision would benefit current Social Security recipients and harm future Social Security recipients.

o Taxation of Tips: The promise of the elimination of taxes on tips, by both candidates, was trying to appeal to the service industry. What is the difference between tip income and the wages that YOU earn or earned when you were working? Nothing. This is simply bad tax policy, will reduce tax revenues, and benefit a select portion of the population.

o Taxation of Overtime pay: The promise to eliminate the taxation of overtime pay was a similarly targeted promise to a small sector of the population. There is simply no rational tax policy that would tax the first 40 hours of work, but exempt earnings after the first 40 hours of work.

· **Uncertainty:** The stock market exploded after the election. Why? Markets assumed that Trump and Congress would give them what they want: fewer regulations, more tax cuts and tax breaks, more incentives for businesses. That is short term thinking. The first Trump administration was known for erratic behavior, with respect to our allies and our enemies. The stock market does not like uncertainty, or erratic behavior. I would predict that you will see more volatility in the stock and bond markets over the next 4 years.

· **Labor Markets:** Trump has promised to close the borders and make immigration harder. That will likely decrease the pool of workers. Fewer workers will be detrimental to the economy in several ways. An economy needs workers and consumers to thrive. Fewer workers and fewer consumers results in stagnant growth, like China has seen as a result of their "one child" policy. The other impact is simple supply and demand. Lower the supply of workers and you will see increased prices in the form of higher wages.

· **What does this mean for you?** Stocks have done well since the election and may continue to do so for a while. I expect that we will see higher inflation. I have started moving some fixed income toward short term inflation protected bonds as a protection against this. I still believe in a balanced portfolio. There will be another global pandemic, recession or war, and when that happens, you will be glad to have the stability of some fixed income in your portfolio. Clearly there are many, many non-tax and non-financial impacts of a second Trump presidency. I will not address those here, but will leave that for others to analyze.

My Crystal Ball: I expect to see the following in the next 4 years:

o Lower tax rates.

o More volatile stock and bond prices.

o Higher inflation.

o Higher interest rates.

o Higher budget deficits.

o Higher national debt.

Please let me know if you have any questions.

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