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Category: Investment Markets

Presidential Elections

"Opportunity or Trepidation"

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On Wednesday morning approximately half of all Americans are going to be elated their candidate won the election. Or, at least they will be pleased the other candidate lost. While the other half will begin to worry about what the future will bring because the other candidate won the election and theirs fell short.

With the exception of the margin of win or loss depending upon the point of view, the above could have described any of the last ten elections; Obama/Romney, Obama/McCain, Bush/Kerry, Bush/Gore, Clinton/Dole, Clinton/Bush, Bush/Dukakis, Regan/Mondale, Reagan/Carter, and Carter/Ford. A number of these elections were equally hard fought. Remember the 'hanging chad'? It seems most Americans are as passionate about their politics as they are their country.

While some may promote fear about one candidate or the other, it is no different than it has been in the last ten elections or 40 years! The investment markets will react as they always have. When there is an unknown, volatility will increase and the market may sell off. A hint of this occurred during the last week when Trump's campaign gained strength and his odds of winning increased. The sell-off though, a mere three percent (3%). Does this not mean the markets are Democrats? No, but his gains in the polls brought uncertainty back in the markets. There have always been periods of uncertainty regardless of who was in the White House. For Trump, the uncertainty centers around the fact there is no history of how he will lead or how some of his promises can be enacted.

If Trump brings uncertainty, does that mean Clinton brings certainty and calm markets? No. But with Clinton's decades of political experience and awareness, the markets do have hints of how she will act as President, thus reducing the level of uncertainty in the event of a Democratic win. More importantly, the markets are more about anticipating gridlock than they are a Democratic or Republican Presidency. It appears the House will remain under Republican control and the Senate may be even or slightly in Republican favor. If this is the case and Clinton wins the Presidency, the likelihood of sweeping changes are diminished! Take away or reduce the potential of significant changes, and the recipe for less volatile markets may once again be what is expected.

As little as four and a half months ago, June 24, 2016, Great Britain voted to leave the European Union which shocked not only Great Britain but the world. The markets immediately reacted negatively and the declines were not small. Even though this issue was not directly a US policy matter, our markets reacted. The Dow moved from 18,011.07 to

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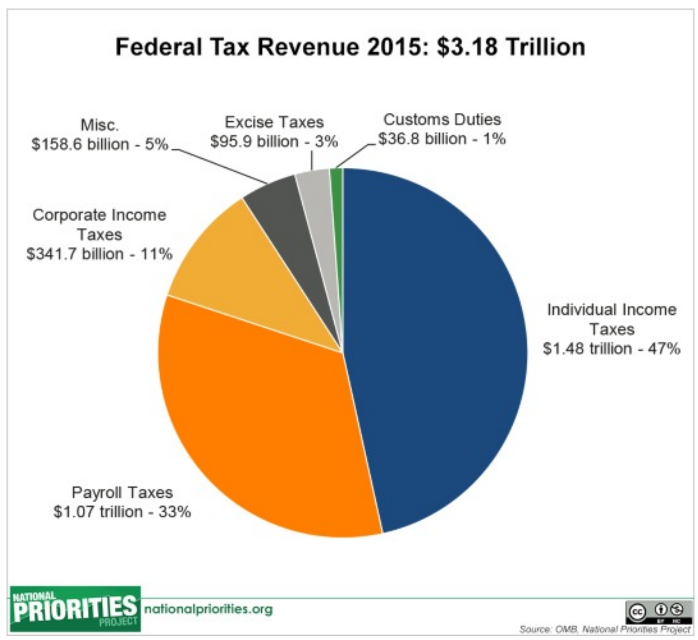
17,140.24, a 870.83 point move lower. By June 30th, the Dow had recovered 790 points, most of what it had lost. Even if a surprise occurs and the markets react negatively, like BREXIT, the drop may be swift as major pools of money shifts to new positions since expectations will have changed. Like BREXIT, even though Great Britain leaving the EU was dramatic, the road to that change is long and filled with many small changes along the way. Remember, our country may have a single leader, it is not a dictatorship and changes must be enacted by both the House and the Senate.

The United States is not without its issues and concerns. A significant amount of what is currently being spent by the government is funded with borrowed money. In response to a claim the public does not like Obamacare, it was reported Americans responded in a poll they wanted federally funded healthcare. Unlike many Arab countries who sell state owned assets (oil and gas) to fund government programs, the US budget is not funded by the sale of assets. Primarily, it is funded on the backs of its citizens. The chart indicates eighty percent (80%) of what is received by the Treasury is paid by you and me. In addition to the taxes our government collects, it is also borrowing money by issuing US bonds. The total of this US debt is increasing at a staggering pace. Per USDEBTClock.org, the US debt is currently $19,813,794,160,000 and rising. That is just shy of $20 trillion resulting in each US taxpayer's share being $165,879. The real fear becomes what happens should the US fail to pay its debts?



Earlier it was mentioned Americans want federally funded healthcare. I am fearful if Americans were polled concerning what services should be provided by the government and what should be paid by the citizens directly, the results would show most would want more and more to be paid by the government. Why not? It would then be free wouldn't it?

For years, the US Treasury has been raising not only the standard deduction, but also the amount of the personal exemption. The impact has reduced the number of Taxpayers who actually file and pay taxes. For 2016, a family of four would have $28,800 of deductions between four personal exemptions and the standard deduction. Realizing this is not a great deal of income, it is creating a group of citizens who are becoming unattached to the impact of the cost to run and fund our government and its programs. As more and more citizens are exempted from paying taxes or pay only minimal amounts, a potential unintended consequence is the emergence of a voting block who desire bigger government, since its cost is not borne by them. Why not vote to have the government pay for free healthcare for

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everyone, free utilities, or any other expense the public may believe is too expensive? Benjamin Franklin once said, "When the people find they can vote themselves money, that will herald the end of the republic."

I think all Americans believe those who are doing well and have higher incomes, should pay a disproportion share of the expense of running the government. But personally, I believe it is not a good thing to create a group of citizens who benefit from living in the US and enjoying its amenities, but pay nothing toward its cost. That does not mean they should pay ten percent or more of their income. But, inequities must be addressed or those who pay the tax may find somewhere else to live. Many corporations have already moved their headquarters to other nations, thus reducing the amount of US tax they pay, often in the millions. According to a June Washington Post article, in the first three months of this year 1,158 people expatriated. The primary reason, taxes. For 2015, a record 4,279 people renounced their US citizenship. While the article did not identify everyone, I doubt many of those who gave up their citizenship paid $1,000 or less in annual income taxes. Those voting and wishing for more services, all provided by our government, could eventually find those who used to pay the tax for these benefits are no longer here and the ability to provide basic services could become challenging. Before this trend of giving up US citizenship to avoid high taxes becomes serious, (In my opinion it already has.), both taxes and spending have to be addressed.

Regardless how this election turns out, it will not be the end of the world. We are not beyond the point in time where the government's spending can be brought back into line with revenues. While it may require some tax increases, it is likely to require more in spending cuts. These cuts will not be easy, they never are. It is far more difficult to reduce or take away a benefit than to avoid providing it in the first place.

Thank you for the opportunity to serve as your *financial resource*. May God bless America.