First Quarter, 2017

My Comments and Opinions

IF is a very big word. It's the biggest word in History. '*IF* this had happened, then that would not have happened' is the twist in every story, in every event and for every life on Earth. 'IF' doesn't have to be happenstance. 'IF' can be planned. IF we do this correctly, then that result may be desirable. IF Edison hadn't persisted with his electric light experiments, surely someone else would have discovered tungsten and caused it to glow in a partial vacuum when electricity was applied. But Edison didn't give up. When asked about it, Edison allegedly said, "I have not failed 1,000 times. I have successfully discovered 1,000 ways to NOT make a light bulb." Edison's 'IF' worked.

IF the U.S. Economy continues to grow slowly, as it has recently, then we will have to wait a while to enjoy a 3% or 4% annual growth rate. "Understood in its broadest sense, the economy is defined as a social domain that emphasizes the practices, discourses, and material expressions associated with the production, use, and management of resources." – source: Wikipedia.org.

The First Quarter, 2017, gave us an economic growth rate of only 0.7%. Puny. The U.S. needs to grow the economy by 3% to 4% per year to generate many more sales, higher profits and fuller employment. In my Fourth Quarter, 2016, Newsletter I mentioned the book ***The 4% Solution: Unleashing the Economic Growth America Needs***. This is a good source book for those interested in the "what's and how's" of economic growth. In nature and in human economic life, what doesn't grow stagnates or dies. We need growth.

I found a good website about the history of the U.S. economy from 1930 to 2016. In 48 years out of a total of 86, our economy grew more than 3%. Take a look at this website: *https://www.thebalance.com/us-gdp-by-year* by Kimberly Amadeo, updated April 19, 2017. When an economy grows at a faster pace, profits tend to increase, prosperity flows to more people, and tax revenues increase because the number of taxable events increases. State and federal governments collect more money. History has demonstrated that when tax rates go down, tax revenues increase. (This might seem counterintuitive.) Budget deficits can actually decrease **IF** politicians apply the increased tax revenue to the deficits.

IF taxes go down and IF the average American family were to receive an extra $4,000, for example, in annual tax savings, the average family should be happy. They could spend some of the $4,000, save some of it and maybe invest some of it. Now imagine that each of the 10 million millionaires in America (NBC News, March 10, 2015 "More Millionaires Than Ever Are Living in the U.S.") gets a tax reduction of maybe $20,000 per year. They could also spend, save or invest this money. NOTE: A net worth of one million is not the same as an income of one million. The answer to the question "How many Americans earn one million dollars a year?" is roughly 500,000, but that number changes a bit year to year. See:

https://www.quora.com/How-many-people-make-more-than-a-million-dollars-per-year.

Now **IF** the many thousands of corporations large and small get a tax reduction, they could save for periods of slow economic growth and/or spend and invest in new machinery, plant and personnel. That amount could be enormous. Billions. But what about the concern that these wealthy people and corporations don't pay "their fair share?" In my opinion a top federal corporate tax rate of 35% is NOT FAIR. It is **onerous**. Fact – corporations don't pay taxes. They collect taxes from their customers and pass them through to the governments. So it's *We the People* who really pay the taxes. One of the first rules of Economics, the study that Thomas Carlyle called "The Dismal Science", is this: You get more of whatever you subsidize and less of whatever you tax. The more you tax something or someone, the more inclined that something or someone is to move to a lower tax location or cease earning so much. The more you subsidize something or someone, the more inclined they will be to seek free money. People are opportunistic. Doubt me? Follow the daily news.

Interest Rates - *Wealthvest* of Bozeman, MT, recently produced a chart of interest rates from the Sumerians, 5,000 years ago to modern times. From 3,000 to 2,000 B.C. the Sumerians charged roughly a 33% annual tax for barley and 20% per year for silver. They taxed production. Babylon's Code of Hammurabi lowered interest rates to 10% about 1,900 B.C. The Greek financial systems were well developed by 300 B.C. Their interest rates were in the 6% to 8% range. In 500 A.D. the Byzantine Emperor Justinian set interest rates in a range not to exceed 4% to 8% based on the credit quality of the borrower. In 1694 The Bank of England began lending at 6%. The last great spike in American interest rates occurred around 1982 when home mortgages hit 18%. So, for the past 5,000 years interest rates have trended down with the exception of the inflation of the early 1980s here in America. But other countries have also suffered hyper-inflation during recent years, much of it due to governmental mismanagement. Among them: Argentina, Brazil, Bulgaria, Mexico, Russia, Turkey and Zimbabwe. Source: *http://www.munknee.com/21-countries-have-experienced-hyperinflation-in-last-25-years.*

High inflation rates and high interest rates go hand-in-hand. Following the Financial Panic of 1907, Congress established the U.S. Federal Reserve System (the Fed) in December, 1913. The Fed is charged with three important functions: 1) Maximize employment; 2) Stabilize prices [inflation]; 3) Moderate [manage] long-term interest rates. These three mandates are each 1/3 of the same economic pie. When employment is healthy, but not over-heated, interest rates and inflation tend to be lower. **IF** there is a bidding war for good employees, wages are pushed up and inflation and interest rates tend to rise. When we are in a recession and unemployment is

high, interest rates and inflation tend to go down. We have also had periods of deflation in our history, meaning negative inflation. **IF** we could predict market behavior for any market, real estate, gold, stocks - whatever, we would all live on our own private tropical islands. But we can't predict much of anything, even the weather, for more than a few days out. Because we can't predict the future movement of asset classes we're driven to study past markets for some hints. That said, always remember that *Past Performance is No Guarantee of Future Results*.

There are any number of charts available for investors today. The most important to me is the chart ***Stocks, Bonds, Bills and Inflation- 1926 to Present,*** annually produced by Morningstar, Inc. I'll summarize with broad brush strokes the history of good stock markets and down or flat markets in America since the 1929 Stock Market Crash. The high for the Dow Jones Industrial Average in 1929 was 380. It took 25 years for the Dow to return to its 1929 high in 1954. The Post-World War II Bull Market started in 1954 and ended in 1966. It lasted twelve years and increased from 401 in December, 1954 to 891 on January 5, 1966. That bull market lasted about 11 years. From 1966 to 1982 the Dow floated in a range from 600 to 1,000 – 16 years of doodling. Then on August 12, 1982, the Dow experienced its most spectacular rise in history. I remember it well. From 777 on August 12, 1982, the index grew more than 1,500% to close at 11,722.98 by January 14, 2000, without any major reversals except for a brief but severe downturn in 1987, which was the largest daily percentage loss in Dow history, a one-day drop of 22%. That bull market lasted 18 years. There were two bear markets and two bull markets between 2000 and 2010. The first bear was the **Dot.Com Mania Crash**, 2000 to 2003, a drop of about 40%. It was followed by a bull market from 2003 to 2007. The most recent bear market followed the Financial Crisis of 2008. On September 16, 2008, failures of large financial institutions in the United States, due primarily to exposure to packaged subprime loans and credit default swaps issued to insure these loans and their issuers, rapidly devolved into a global crisis. This resulted in a number of bank failures in Europe and sharp reductions in the value of stocks and commodities worldwide. During the **Financial Crisis Bear Market** the Dow dropped by 54% before resuming its upward movement. From 2000 to 2010 the market basically went up, down, up, down and back up, going practically nowhere. Then from 2010 to March 31, 2017, the Dow Jones Industrial Average moved up. The Dow Jones started 2000 at 11,497. It closed at 20,663 at the end of March, 2017.

Over the past 88 years the Dow has zigged and zagged its way up from 380 to 20,663. Here's the large pattern: 1929-1954 was **FLAT;** 1954 to 1966 was **UP**; 1966 to 1982 was **FLAT**; 1982 to 2000 went **UP** bigly [real word] even with the bad 1987 crash and quick rebound; 2000 to 2010 was **FLAT**; 2010 to Present seems to be **MOVIN' ON UP**. Since 1929 we had 25 **FLAT** years, then 11 **UP** years, then 16 **FLAT** years, then 18 **UP** years, followed by 10 **FLAT** years, and since 2010, it's been going mostly **UP**. **IF, IF, IF** the American stock market follows the undulations of the past 88 years, there's a good chance that we will continue to witness a growing stock market for a few more years. NOTE: the preceding was a peek at some technical analysis. Fundamental analysis of stocks includes such things as earnings, prices compared to earnings, rates of growth of the

companies, dividends, competitive advantages or disadvantages and many other factors. **IF** America continues on a growth path, investors will likely anticipate good news 6 to 9 months out and buy more shares. The stock market looks ahead. Investors try to get in front of a positive trend. Again - **PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.** From the first trading day of 2017 to the end of March, 2017 the Dow Jones Industrial Average increased from 19,881 to 20,728, up 847 Dow points.

Regardless of where the economy, or the markets, or interest rates or the prices of putty in Egypt go over the next few years, one thing seems certain to me…we will need more money over time. At Brimmer Financial/National Securities we practice the art and science of financial planning. Financial planning is not an exact science nor is it Rembrandt. It's the process of doing what we can to be sure - come what may, good or ill - that you will have most of your financial needs covered. If you live a long time, will you have enough income? If your lifetime is less than average, will your heirs be protected? If you become incapacitated, will you have adequate replacement income? Many celebrities have died without making a will and many young professional athletes go bankrupt a few years after they retire from the game. They didn't plan. They needed someone to guide them so that they would be able to retain much of their earnings for life and for their heirs. It would be great if people who worked so hard for their earnings could keep a chunk of their money and then pass it along. **IF** we all had written financial plans I believe we would have many, many fewer financial failures. Having a financial plan doesn't guarantee financial success, but it does help point us in a direction that has helped so many over the years. Businesses make plans. *We the People* also need to plan.

IF you don't have a financial plan, call us. 508-240-0320. **IF** we don't have your email address, call us. You'll know because you don't get our emails. **IF** you have questions about planning, investments, insurance or annuities, call us. **IF** you have assets in old retirement plans and would like to bring all your assets together, call us. **IF** you are still of working age and are not adding to your investment portfolio, call us.

"You can lead a horse to water, but a pencil must be lead." – Laurel and Hardy