RIA Advice

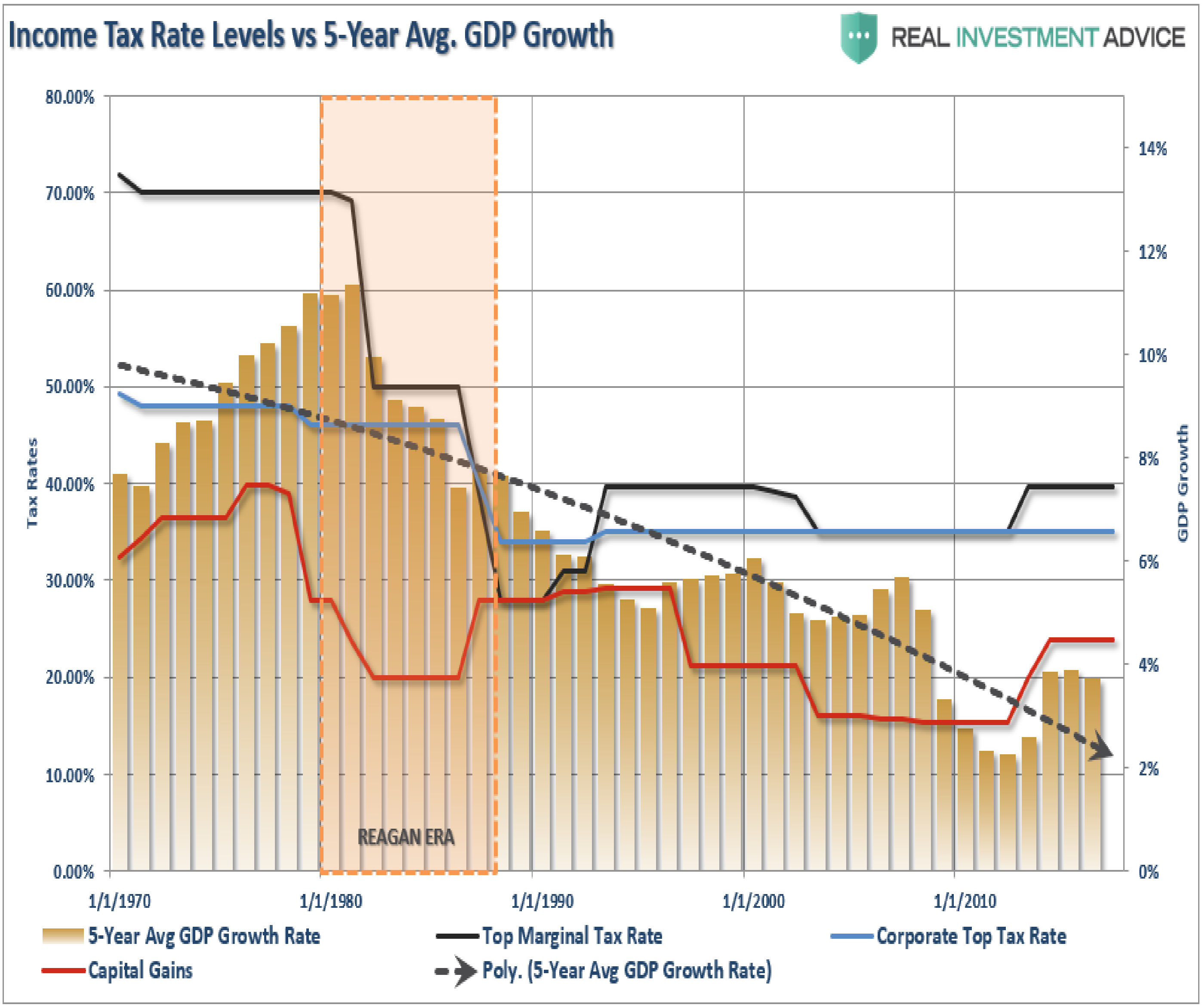
As I noted last Friday, the recently approved budget was an anathema to any fiscally conservative policy. As the Committee for a Responsible Federal Budget stated:

> *"Republicans in Congress laid out two visions in two budgets for our fiscal future,* ***and today, they choose the path of gimmicks, debt, and absolutely zero fiscal restraint over the one of responsibility and balance. Passing fiscally irresponsible budgets just for the sake of passing "tax cuts," is, well, irresponsible.*** *Once again, elected leaders have not listened to, or learned, what their constituents are asking for which is simply adherence to the Constitution and fiscal restraint."*

I then followed this up this past Monday with *"3 Myths Of Tax Cuts"* stating:

> ***"Tax cuts do not pay for themselves; they can create growth, but in the amount of tenths of percentage points, not whole percentage points. And they certainly cannot fill in trillions in lost revenue.*** *Relying on growth projections that no independent forecaster says will happen isn?t the way to do tax reform.* ***As the chart below shows there is ZERO evidence that tax cuts lead to stronger sustained***

***rates of economic growth.** The chart compares the highest tax rate levels to 5-year average GDP growth. Since Reagan passed tax reform, average economic growth rates have only gone in one direction."*



On Thursday, Fitch confirmed the same in their dismal report on the reality of what the effect of the *"tax cut"*

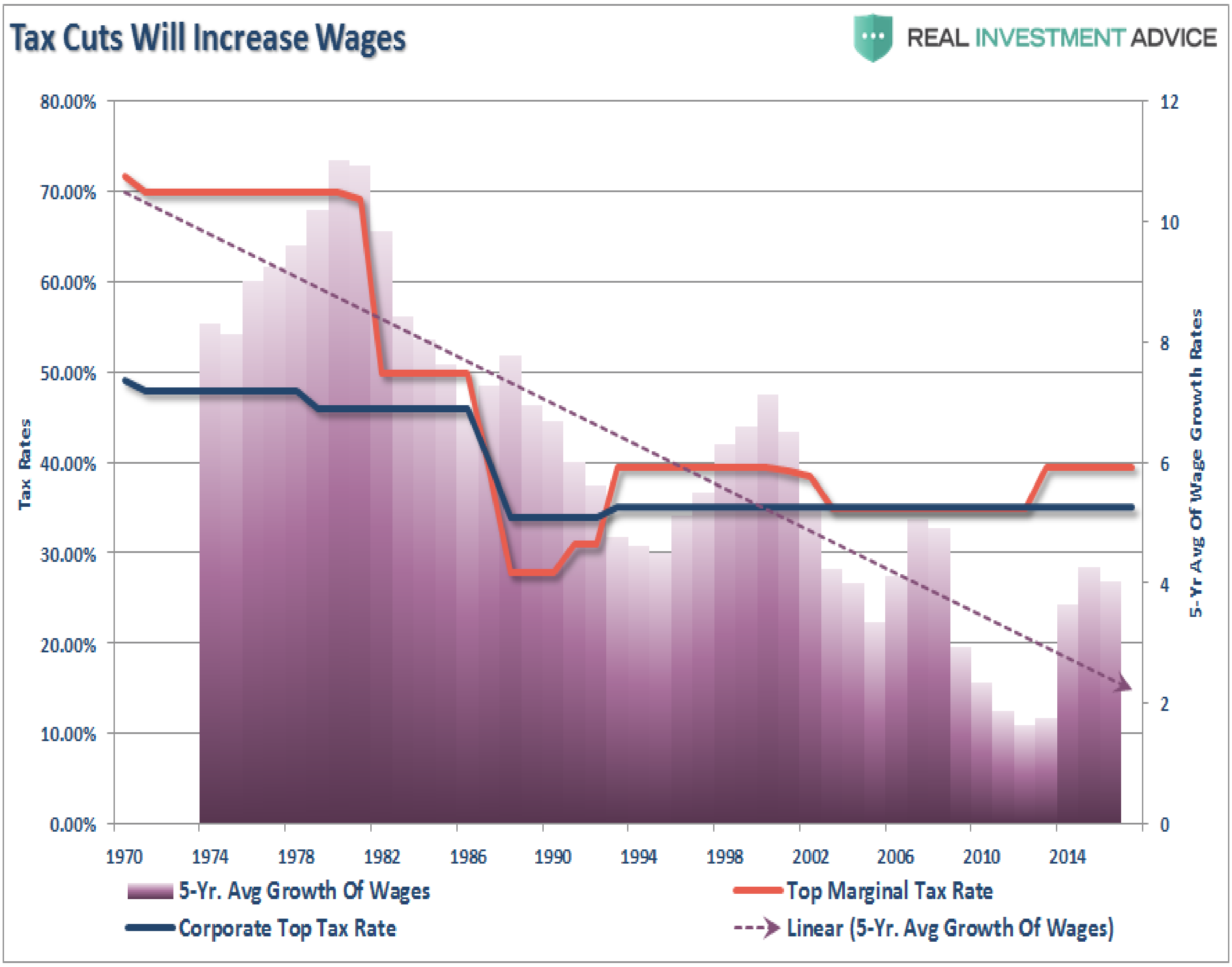
> *"Such reform would deliver a modest and temporary spur to growth, already reflected in growth forecasts of 2.5% for 2018. **However, it will lead to wider fiscal deficits and add significantly to US government debt.** As such, Fitch has revised up its medium-term debt forecast. US federal debt was 77% of GDP for this fiscal year. **Fitch believes the tax package will be revenue negative, even under generous assumptions about its growth impact. Under a realistic scenario of tax cuts and macro conditions, the federal deficit will reach 4% of GDP by next year, and the US debt/GDP ratio would rise to 120% of GDP by 2027.** Tax cuts may lead to a short-lived boost to output, **but Fitch believes that they will not pay for themselves or lead to a permanently higher growth rate.** The cost of capital is already low and corporate profits are elevated. In addition, **the effective tax rate paid by large corporations is well below the existing statutory rate. Fitch expects US economic growth to peak at 2.5% in 2018 before falling back to 2.2% in 2019. The US will***

enter the next downturn with a general government "structural deficit" *(subtracting the impact of the economic cycle) larger than any other 'AAA' sovereign, leaving the US more exposed to a downturn than other similarly rated sovereigns.* ***The US is the most indebted 'AAA' country and it is running the loosest fiscal stance.*** *Long-term debt dynamics are also more negative than those of peers, with health and social security spending commitments set to rise over the next decade. "*

There is nothing *"good"* in any of the statements above,• and drive to the same conclusions I discussed last Monday. **You can't solve a debt problem, by issuing more debt.**•While Congressional members continue campaigning that the•*"tax plan"* would give an $1182 tax cut to most Americans, and boost wages by $4000, such has never been the case. A recent study by the Economic Policy Institute suggested the same in a recent study:

"Cutting corporate tax rate cuts would do very little to boost•employment generation. ***In fact, cutting corporate tax rates ranks as the•least•effective form of fiscal support for employment generation, since corporate tax cuts primarily benefit rich households****?who are less likely to increase their consumption than low- or middle-income households when they receive tax cuts."*

This is a point I have made previously. Corporate tax rate cuts will unambiguously redistribute post-tax income•*regressively*. The corporate income tax is a progressive tax, with the top 1% of households accounting for 47% of the corporate income tax.



Don't be bamboozled by the idea that tax cuts and reforms will lead to sustained economic growth.

There is simply NO evidence that such is the case over the long-term. However, there is plenty of evidence to suggest that further costly reforms and run-away budgets will lead to an increase of the current national debt and the ongoing low-growth economy that has plagued the U.S. since the turn of the century. In other words....*"it's the debt, stupid."* In the meantime, here is your weekend reading list.

Trump, Economy & Fed

- **Supply Shocks Raise Odds Of Fed Mistake**by Danielle Dimartino-Booth via Bloomberg
- **The "Rob Peter To Pay Apple" Act**by Matt Labash via TWS
- **Cutting Corporate Taxes Is The Best Part Of The Plan**by Caroline Baum via MarketWatch
- **Deficit Hawks Skeptical Of Assumptions**by Matt Welch via Reason
- **Which Companies Spend Most On Lobbyists**by Simon Constable via Forbes
- **Most Important Things Still In The Tax Bill**by Nathan Lewis via Forbes
- **Amended GOP Tax Plan Points Released**by Tyler Durden via ZeroHedge
- **The "Haggling" Will Only Intensify**by Joe Ciolli via BI
- **Please Stop Calling Me A "Shadow Banker"**by Pedro Da Costa via BI
- **GOP Has A $74 Billion Hole In Their Tax Bill**by Bob Bryan via BI
- **Why The Numbers Don't Add Up For The Tax Bill**by Yuval Rosenberg via Fiscal Times
- **A Government Of, By & For The Plutocrats**by Nomi Prins via The Daily Reckoning
- **Proposed Tax Bill Needs To Die**by David Leonhardt via NYT
- **Tax-Cut Proponents Ignore There's No Free Lunch**by Henry Aaron via Real Clear Markets
- **GOP Tax Plan Screws The Middle Class**by David Stockman via Daily Reckoning
- **How The GOP Can Pay For The Tax Plan**by Hugh Hewitt via Washington Post

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VIDEO - Tax Cut/Reform Discussion *(Real Investment News)*

Markets

- **BAML: Investors Still Getting One Thing Wrong**by Joe Ciolli via BI
- **The Hidden Danger Bulls Are Missing**by James Rickards via Daily Reckoning
- **One-Person Households The New Norm**by SA Gil Weinreich via Seeking Alpha
- **3-Strategists Talk Where Stocks Could Finish In 2017**by Adam Shell via USA Today
- **The Bull Isn't Feeling The Love**by Landon Thomas via NY Times
- **A Divergence That Makes Us Nervous**by Macromon via Global Macro Monitor
- **What Wall Street CEO's Have Said About BitCoin**by Shawn Langlois via MarketWatch
- **More Cracks Appear In The Market**by Michael Kahn via Barron's
- **Yield Curve Not Buying It**by Tad Rivelle via Trust Co Of The West
- **Stock Stampede Just Getting Started**by Sue Chang via MarketWatch
- **November Starts The Seasonally Strong Period**by Ryan Detrick via LPL Financial
- **A Rising Tide Of Earnings Shenanigans**by William Watts via MarketWatch
- **Three Easy Pieces**by Michael Lebowitz via RIA
- **Curb Your Enthusiasm**by Doug Kass via RIA

Research•/ Interesting•Reads

- **Tax Cuts Will Balloon US Debt To 120%** • by Wolf Richter via Wolf Street
- **The Great Pension Bail Out Bill** • by Tyler Durden via ZeroHedge
- **Chances This Market Rally Ends Badly** • by Simon Maierhofer via MarketWatch
- **It's Time To B.U.T.T.** • by Kevin Muir via The Macro Tourist
- **A Dozen Business Lessons From "Waffle House"** • by Tren Griffen via 25iq
- **Bread & Circuses** • by Buttonwood via The Economist
- **A Sober Reading Of 3% Growth** • by Joe Calhoun via Alhambra Partners
- **The GOP & WallStreet Putting Economy At Risk** • by Phil Angelides via Real Clear Markets
- **Most Dangerous Shortcut In Financial Planning** • by West & Ko via Research Affliliates
- **This Time IS Different, Just Not How You Think** • by John Hussman via Hussman Funds
- **Small Caps - Close But No Cigar** • by Dana Lyons via The Lyons Share
- **How The "Winner Take All" Era Ends** • by • Jesse Felder via The Felder Report

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> ***?In investing, what is comfortable is rarely profitable." -** Rob Arnott*

Questions, comments, suggestions ? please email me.