CONSERVATIVE
FINANCIAL SOLUTIONS

The Growth of the Economy

Have you ever had the dream where you are running away from something, but your feet feel like blocks of cement; you struggle just to run in slow motion? That's how the US economy has felt for investors for nearly eight years. The US economy has grown at an average annual rate of 2.1% since the recovery started in mid-2009. This is much slower than during the economic expansions of the 1980s and 1990s.[1] Although there seems to be plenty of room for growth and expansion, our economy is stuck in slow motion and investors have had to fight for growth in their portfolios.

Increased spending on social programs, combined with higher taxes and stifling regulations from the government are all factors that have kept the US economy from reaching its true potential. At the end of the day, every dollar the government spends comes from taxpayers. This is done either through tax dollars or debt, which simply obligates future taxpayers to pick up the bill. Either way, there is no free lunch.[2] Every dollar taken out of the hands of the taxpayer is a dollar that is not spent on goods and services, and it is a missed opportunity for economic growth.

The corporate tax rate is yet another example which influences the growth of our economy. The current U.S. federal tax rate on income earned by corporations is 35%. Our neighbor to the north (Canada), has a corporate tax rate of 15%, and our neighbor to the south (Mexico) has a corporate tax rate of 30%.[3] No country has a higher corporate tax rate than the United States, yet politicians still debate the reason for why we are losing jobs to other countries.[4] The point I am trying to make is that every dollar taken from private sector corporations, the true drivers of our economy, is a dollar that is not reinvested back into those corporations. It is a dollar that is not being used to drive innovation and creativity in producing more goods and services, and it's another dollar not going into the hands of employees (consumers).

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On Wednesday, January 25, 2017, the Dow broke 20,000 for the first time. When the markets start reporting all-time highs, there is a certain portion of investors that start to get nervous. They start contemplating about whether or not the market has hit its peak, if it's time to cash out, or worry about implications from government policies. Certainly, there is some controversy about the new administration that occupies the White House, but the new administration has announced their intent to implement numerous policies to help promote business growth. One of those policies is to reduce the corporate tax rate. This will increase corporate earnings, increase dividends, and drive up stock prices. With the intent of putting more money into the hands of the consumer, another policy is to cut the individual tax rate. This will free up income for consumers to purchase more goods and services produced by American Corporations, as well as money to invest for retirement.

In conclusion, let me be clear. I am not against all taxes or government programs, and I certainly do not endorse every decision the new administration has made or proposed. However, I do understand basic economic principles, and I'm not alone in my thinking that investors need to be ready for exciting investment opportunities in 2017. I'm looking forward to trading in blocks of cement for a nice new pair of running shoes.

1 https://www.ftportfolios.com/Commentary/EconomicResearch/2017/2/6/room-to-grow
2 https://www.ftportfolios.com/Commentary/EconomicResearch/2017/1/3/watch-the-spending
3 https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html
4 http://www.marketwatch.com/story/why-the-corporate-tax-rate-in-the-us-should-be-15-2016-08-16

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