MERITAS ADVISORS

FINANCIAL
Insights

February

Strategies for the Downturn

I'm sure you've seen the headlines, but if not, you should know that the global stock markets are dropping as a result of fears about the spread of the coronavirus. The statistics keep changing, but currently by far the most deaths (2,664) have been confined to China, with 15 reported in Iran, 11 in South Korea, 7 in Italy and four on a Diamond Princess cruise ship off the coast of Japan.

We have no idea how far or fast the disease will spread, and neither do the markets.

What is the best course of action today? The first 3% drop in the U.S. stock markets was completely unexpected, and nobody could predict the second day's fall. The options now are:

Sell today, and then watch to see how the spread of the coronavirus plays out in the minds of day traders and quick-twitch "investors." The odds are that the markets will recover before the end of the epidemic, so you'll eventually have to buy back at a higher price than you sold at—and look like a bit of a fool.

Wait until there is confirmation that we are, indeed, in a real bear market, sell at or near the bottom, and then see the markets rise past where you sold—and look like a bit of a fool.

Hold tight, ride out the downturn (however long or short it might be) and experience the next rise (whenever it comes) and breathe a sigh of relief that the markets were not down permanently for the first time in human history. You'll do some sweating along the way, but in the end you'll look like a winner.

Market timing during times of market stress is psychologically appealing, but in the real world it is pretty much impossible to execute. Not knowing when to get out (Yesterday? Two days ago?) and especially not knowing when to get back in, mean that your odds of getting it right twice are about 25% or less—and remember that you already missed the first timing decision.

So in the real, rational world, you have two choices: ride it out, or contact our offices if you are feeling real mental distress over these two days of downturns. It could mean that you need a permanent reduction in your portfolio's risk profile before you make a mistake, out of panic, that could be harmful to your financial future.

Debt Reduction Options

You probably know that the U.S. national debt is exploding, but if you don't, try looking at the U.S. debt clock (https://usdebtclock.org/) which shows how high our national debt is every second (currently $23.2 trillion and counting). Our federal budget deficit will exceed $1 trillion this year. The clock says that the federal debt per individual taxpayer is $187,632—and rising. (The clock also calculates interest paid, debt per citizen, debt per family, mortgage debt, gross domestic product and a lot of other interesting things.)

Sooner or later, our federal debt will have to be paid back—or, at least, we will have to reduce the annual deficit to more manageable numbers. The question is: how? A recent article looked at different options that politicians will eventually have to consider.

One is a new inheritance tax. You probably know that the first $11.58 million of a deceased person's wealth is now exempt from federal estate taxes, which means that very few people will pay any estate taxes at all—today. The article says that if we moved the exemption threshold down to $2.5 million, the government would raise an estimated $34 billion more a year. At a lower threshold of $1 million, taxes collected would go up by $92 billion.

The article considers the wealth tax, which is favored by Democratic presidential candidates Bernie Sanders and Elizabeth Warren. The Hamilton Project has proposed four types of wealth taxes, which would tax people with wealth ranging from a low of $8.25 million to taxes that would start at a net worth of $25 million. Each of the wealth tax options would raise approximately $300 billion a year.

Another possibility is a value-added tax—a tax levied at various levels of production for goods and services. This, of course, is popular in most developed nations, and it causes prices to rise for consumers. A 10% VAT would raise around $1 trillion a year—which might conceivably reduce our annual debt to $0.

A final possibility is a financial transaction tax, which would put a 0.1% fee on all trades of stocks, bonds and derivatives. This would raise costs for investors, but it might, if implemented, raise government revenues by $60 billion a year.

The article also talks about raising corporate taxes, but the problem there is that you would have to get tax havens like Ireland and Luxembourg to go along. Otherwise, companies would set up shop in those lower-tax countries (many have already) and avoid the higher U.S. rates. It might be possible to raise the highest corporate tax rate from 21% (today) to 25% or 28% and not cause corporations to create offshore tax solutions. This would raise an additional $110 billion per year, and might also boost economic growth and stimulate investment.

The point of the article is that some form of additional taxation is coming. What the article doesn't say is that raising today's personal income tax rates (particularly on the higher end) will probably be the first thing our next President and Congress consider.

-Bob Veres

Source:

https://finance.yahoo.com/news/heres-how-well-pay-for-trumps-trillion-dollar-deficits-183009760.html

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