HAWK 100

HAWK Talon

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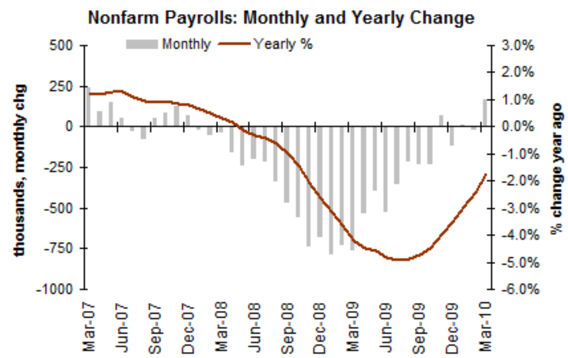
"It's the economy, stupid."



Source Haver Analytics, Econoday.

Nearly twenty years have passed since Bill Clinton famously uttered, "It's the economy, stupid." during the 1992 presidential campaign. It squarely focused attention on then President George Bush Senior's apparent deference to what was being characterized as a prolonged economic slump. Clinton keenly reminded that President Bush that Americans care about their economy and any show of deference to their plight was plainly stupid. We should again heed Clinton's wise statement.

In the fight from an economic trench deeper than that ascribed to Clinton's remark. Americans seek leadership that transpires to sustainable improvement of the economic condition. Yet, the current administration seems bent to serve various interests that potentially threaten economic prosperity. After three years under current Congressional leadership and a year-plus of the Obama Presidency, we seem to have lost sight of Clinton's succinctly stated wisdom.

Americans care about their economy, and, indeed, their jobs. Aggregate US unemployment remains at 9.7%. Although down since October, it exceeds any unemployment rate since June 1983. A Reuters survey for ADP indicates the private sector shed 23,000 jobs during March. Meanwhile, the US Department of Labor Bureau of Labor Statistics shows 162,000 new non-farm jobs during March (see above chart). BLS's report belies the true state of employment. Aside from different data analysis techniques, which can account for wide discrepancies, the ADP—BLS divergence illustrates a pattern of increasing government size while the private sector shrinks. Those government employees will receive wages that must eventually be paid from higher taxes levied on a smaller private sector. Increasing tax leverage creates a heavy burden on prosperity raising our skepticism of a sustainable US recovery.

Showing deference to the people is plainly stupid. The March enactment of the "Patient Protection and Affordable Care Act" and "Health Care and Education Affordability Reconciliation Act" displayed remarkable deference to the American people. Despite consistent evidence that Americans overwhelmingly opposed the Act, Congress and the President punched it through the legislative process with an iron fist. The process and the outcome of enactment overtly conflicted with the will of the people.

So, we have health reform which leads us to inquire a la Vice President Joe Biden, what is the big #*^@ deal? After all, while signing the Act, Congress and the President acknowledged that they failed to assuage their goals for health reform. What do these Acts mean for Americans, and how do they affect your wealth alignment plan?

First, the Acts retroactively apply to December 2008. Prescription drug payments under Medicare Part D retroactively adjust, though the implementation process is still left to design by Treasury and Health and Human Services. In 2010: children may stay on family plans through age 26 and seniors receive a Medicare Part D subsidy to help close the maligned prescription benefit "donut hole." 2011 introduces strict constraints on HSA and Archer MSA savers. 2013 is when taxes accelerate in earnest. The medical expense itemization threshold rises to 10%, and HSA contribution limits fall to $2500. Medicare taxes will increase and will apply to rent, dividends, interest, and capital gains in addition to traditional wage and earnings. Together with the expiration of the Bush tax cuts, the marginal tax rate applied to dividends and capital gains at least doubles and could rise as much as three-fold for some Hawk100 members.

The White House website banner blithely states, "Putting Americans In Control of Their Health Care." This may be true only to the extent that government officials are Americans. If the White House truly put Americans in control of their health and economy, all would be better. Alas, we seek less stupidity and deference to our will and prosperity.

By Richard Clemens, CFA, President

Deferred Taxes.

For as long as taxes have been levied, the measure of taxable income under internal revenue code rules has differed from the measure for book income under generally accepted accounting principles (GAAP) to prepare company financial statements.

Some discrepancies cause permanently different taxable and book income. Municipal bond interest increases book income but does not show on a tax return.

Other discrepancies are temporary and expected to reverse in the future. Cost of equipment is often deducted immediately from taxable income but recognized ratably over the asset life for book expense. Cumulatively by the end, the differences reverse and deductions equal expenses.

Accounting rules require companies to project the reversal of temporary differences and recognize assets or liabilities for future tax benefits or charges thereon.

ObamaCare eliminates tax deductions for the cost of retiree prescription benefits under Medicare. Companies are now writing off previously booked assets since they no longer expect a future tax benefit.

Though accused of playing politics, AT&T, Verizon and others are applying GAAP to present fairly the value of their assets as future tax deductions disappear.

Your wealth.
Your life.
Aligned.

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