



# HAWK | Talon

## HAWK 100

Monthly News from Hawk100

Issue 21, September 2010

### September to remember.

Two years since the financial system nearly collapsed on a house of cards, printed on sub-prime mortgage CDOs, things appear almost normal today.

Normal only if you expected the market's wild gyrations of recent months. The large cap S&P500 index gained 8.9% to continue the summer's monthly oscillation (June -5.2%, July +7.0%, and August -4.5%). This was the best September post WWII. Not to be outdone, the small stock S&P600 gained 11.3%, a September record. Tech investors enjoyed their best September since the 1990s on hopes the iPad actually is the current killer app.

Foreign stocks enjoyed an even 10% advance in US dollar terms. This eased pains from earlier in the year for international investors. The MSCI EAFE Index is now up 1.1% for 2010.

With almost perfectly negative correlation to stocks, Treasuries dropped 2.8%, and the 10-year bond yield settled at 2.52%, up merely 4 basis points from last month. Treasury yield term structure continued to flatten while the Fed purchased T-bonds.

The big question as October begins, will markets continue to oscillate monthly, or will the bull market hold its latest gains? Congress could clear the path for bulls by cutting rates and pages from the tax code.

Your wealth.  
Your life.  
Aligned.

### Should 5% appear too small.

George Harrison penned the lyrics for the 1966 Beatles hit, "Taxman," in protest of progressive taxes. Harrison's prose alludes a litany of mundane assessments on incomes. The taxman progressively digs deeper into every new dollar leaving him just 5%.

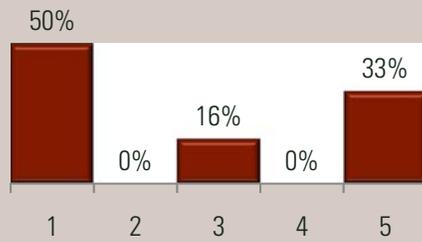
**Progressive piety.** Since the days of Adam Smith, economists have debated the wisdom of progressive taxes. A scheme that levies higher taxes on larger incomes moderates economies. It cushions poverty and recession, and it tempers wealth and expansion. In our opinion, benefits of moderation fall short when contrasted with disincentives assessed on success.

The top right chart shows the highest marginal tax bracket and rate since 1913 when the 16th Amendment enabled Congress to collect income taxes. The Hawk100 Tax Burden Index, below right, combines the top marginal bracket and rate to discern the burden on incomes. Lower rates or higher brackets are friendly while higher rates or lower brackets are burdensome. Prior to Reagan, taxes were increasingly burdensome, but Reagan started an increasingly friendly trend — interrupted only by Bush Sr.'s recanted "no new taxes" pledge and Clinton's early foray into the revenue code.

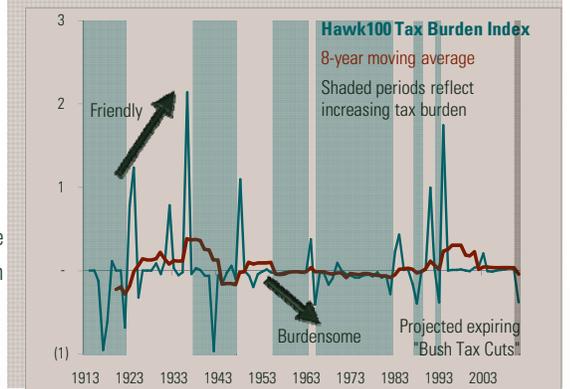
**Compliance costs.** Yet, the tax burden is greater than the tax code. The Tax Foundation, a nonpartisan educational organization, opines that the "full cost"—including tax planning advice and forms prep—of complying with current tax code "is more than the amount of tax paid." The IRS estimates 6.6 billion hours spent annually filing forms. In 2006, The Tax Foundation projected 2010 Federal income tax compliance costs of \$368 billion. That study excludes Acts of the current Congress which surely increased compliance costs.

### With the "Bush tax cuts" scheduled to expire, what do you expect for 2011 tax rates and what moves are you taking to prepare?

- 1 Rates will rise. Accelerate 2010 income.
- 2 Rates will fall. Defer income to 2011.
- 3 Rates will not change in 2011. Do nothing.
- 4 Regardless of rates, always defer income.
- 5 Help! I have no idea what to do!?!?



Source: The Tax Foundation



Source: Hawk100 based on data from The Tax Foundation

**Elusiveness expense.** Beyond compliance, a string of ambiguity encumbers the economy. Uncertain rates and regulations make taxpayers unwilling to invest for the long-term, driving opportunity cost higher. Hawk100 recently polled the question, "with the 'Bush tax cuts' scheduled to expire, what do you expect for 2011 tax rates and what moves are you taking to prepare?" A third of respondents have no idea what to do. The foregone opportunity due to this uncertainty immeasurably results in what we call elusiveness expense. As Mr. Harrison captures, "... be thankful I don't take it all. 'Cause I'm the taxman. Yeah, I'm the taxman!"

6600 Perimeter Dr.  
Suite 200  
Dublin, Ohio 43016  
614.791.HAWK  
www.hawk100.com

By Richard Clemens, CFA, President

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