HAWK 100

HAWK Talon

Monthly Insights from Hawk100 | Issue 28, April 2011

Trump for precedent.

Hawk100 finds little redeeming quality in would be presidential candidate, Donald Trump. However, he may be uniquely qualified to occupy the Oval Office.

We do not care for his iconic comb-over or his irascible personality. The hairstyle belies a skill at covering-up, perhaps a necessary presidential attribute. As for his personality, Americans are well worn and tired of presidents unable to play with others. Rather, Trump's distinctive quality is a proven experience and ability to navigate through bankruptcy and to emerge for the better having restructured.

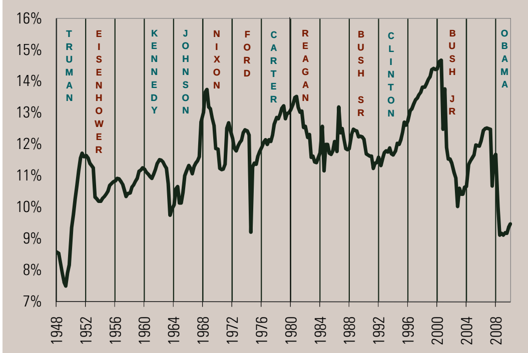
Contrasting with Trump's popular image as an ever-successful businessman, his companies have declared bankruptcy four times collectively. Despite a multiplicity of insurmountable debts, Forbes' recently placed Trump #137 on its list of wealthy Americans. That's a compelling argument for Trump. He knows how to magically use bankruptcy to advantage. Taxpayers would certainly appreciate that elixir to extract America from mounting public debt and unfunded entitlement liabilities.

There is little chance that The Donald would earn my vote for President, though I would support his nomination to a new Secretary of Bankruptcy. In this noble role, Trump could set new precedent by telling Timothy Geithner, "You're fired."

Your wealth.
Your life.
Aligned.

No Free Lunch.

Standard and Poor's warned on April 18 that it revised its outlook on the US to negative. S&P cited an unclear path to resolving "very large budget deficits and rising government indebtedness" to justify its sovereign outlook for the US. Despite Harry Markowitz, of modern portfolio theory fame, neither the risk-free asset nor free lunch exist.



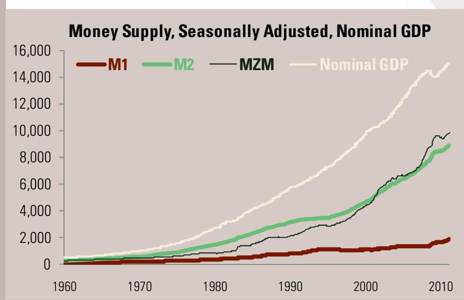
SOURCE: US Bureau of Economic Analysis.
Personal current taxes as percentage of total personal income. Based on quarterly data since 1947. Presidential cycles are highlighted for illustration.

Financial markets mostly shrugged off the news. The bellwether 10-year US Treasury yield fell four basis points on April 18 to 3.37% then continued falling to close the month at 3.30%. Stocks initially dropped then closed April 3.3% higher than the April 15 close. Investors were oblivious to the S&P warning, clinging to memories of the risk-free asset, or too busy filing taxes to take notice.

I will gladly pay you Tuesday for a hamburger today. In its weekly filing statistics, the IRS highlights the number of returns received and refunds paid. Year to date through April 8 (the last week reported, ironically on April 18), 98.6 million individual returns were received and $234.2 billion refunds paid. Those amounts were down modestly from April 9, 2010. For all of 2010, the IRS received 142.4 million returns and paid refunds that amounted to 27.3% of total personal taxes reported by the US Bureau of Economic Analysis. Both figures were materially lower than in 2009. Taxpayers have regularly advanced over a quarter of their yearly taxes to the IRS. This makes extremely underutilized wealth. Investing those refunds, even if only in 90-day T-bills, would return $400 million additional American wealth.

A long hike to fiscal stability. The above chart shows the income tax burden on US individuals as a percentage of their total personal income. This interesting perspective on the tax burden visualizes taxes paid relative to household income rather than based on stated rates or relative to production (GDP). Excluding "outliers" under Johnson, Ford, and Clinton, tax burdens generally rose through Carter then started falling with Reagan. Recent upticks, consistent with Obama's promised transformative change, may reverse 30 years of falling taxes and rising prosperity. During campaigning, remarkably early for an incumbent, Obama again proposed tax hikes. Individuals never paid over $1.536 trillion taxes. Even doubling individual taxes, an unsustainable proposal, would fail to close a gaping fiscal deficit.

The chart below shows explosive growth in GDP (total aggregate income) since 1980. Loose Federal Reserve policy also appears on this chart as an expanding monetary base. That policy is causing inflation to show in many forms. Consumer prices rose at an annualized rate of 12% in March. Producer prices rose 5.8% year over year through March and 3.5% in the first quarter alone. Gold rose 8.1% in April; oil exceeds $113 per barrel, and the Euro is worth $1.48. Each indicator is at 2008 levels seen just before the most damaging months of the market crash. Inflation guarantees there is no free lunch to loose fiscal and monetary policy. This fact, S&P and Hawk100 respect.



SOURCE: Federal Reserve and Bureau of Economic Analysis.

6600 Perimeter Dr.
Suite 200
Dublin, Ohio 43016

614.791.HAWK

www.hawk100.com

By Richard Clemens, CFA, President