Ray's Corner

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Economic and Market Commentary

The winter of 1951 started early, stayed late and had a brutal impact on people living in the Midwest. By Halloween, the country had already experienced record snowfalls. During the first few days of November, a "Blue Norther" came in from Canada. Its fast-moving cold front darkened skies across Michigan, Ohio, Indiana and Illinois. The cold air mass had moved across the Great Lakes picking up water vapor along the way. The vapor rose through the colder air above and froze. Then it began to snow.

The Indianapolis Recorder is the oldest Black newspaper in America that's been in continuous operation since 1897. The paper was co-founded by George P. Stewart, an enterprising young man who started out by selling advertising and filling the balance of space with Church announcements. George then delivered the sheets to the local Black churches for distribution.

The Recorder had their offices at 414 Indiana Avenue, right in the heart of the Midwest's African American Cultural Center. Like its Harlem counterpart in the East, Beale Street in Memphis and 12th and Vine in Kansas City, Indiana Avenue grew to be a center for Black commerce, religion and culture. Black music clubs prospered along the avenue and provided opportunities for jazz greats like Jimmy Coe, Wes Montgomery and Errol "Groundhog" Grandy to perform. And so, for the next 60+ years, *The Recorder* reported on local news and Church events from its home on Indiana Avenue.

And Now the News

A careful reading of the November 24th, 1951, edition of *The Indianapolis Recorder* would reveal news and sports results of the day, ads for Fleischmann's Whiskey, Wiedemann's beer, obituaries, announcements, and there on page 12, a chatty column not unlike Herb Caen's, entitled "The Avenoo." About half way down that column, wedged between an account of the entertainers coming to the "New Golden West Social Club" and a review of Gregory Peck's latest movie, "Horatio Hornblower,"was an account of a recent funeral at the new Crown cemetery.

A Sad Occurrence

That November 24th column reported on the passing of Mrs. Minnie Gayton. Mrs. Gayton was 82 at the time of her death. "She died in the snow and was buried in the rain." You see Minnie was a beggar who was found on a porch blanketed in snow, a casualty of the record breaking blizzard a few weeks earlier. Her funeral was attended

by nearly a thousand people who came from all walks of life. Mrs. Gayton had been a fixture in downtown Indianapolis for the better part of 50 years.

Her friends from the Oriental Café decorated the baby buggy she kept her handouts in with garlands of flowers. Her favorite benefactors were the neighborhood grocers who practiced their own brand of philanthropy by filling up Minnie's buggy with day-old fruits, vegetables and bread. During her lifetime, Minnie slept in doorways, on porches and in garages. Ironically, although her cause of death was exposure, Minnie died in a warm hospital bed in the charity ward at Indianapolis General Hospital.

Hi De Hi De Hi De Hi

Believe it or not, at the time of Mrs. Gayton's death, the world knew who she was. In fact, although you may not realize it, you know Mrs. Gayton. Why would you know an 82-year-old beggar who died more than 65 years ago? The answer is that the world-renowned musician and bandleader Cab Calloway memorialized her 20 years before her death when he wrote his scat classic, "Minnie the Moocher."

Back in the late 20s, a young Calloway worked as a drummer, singer and MC at Chicago's famed Sunset Café. It's at the Sunset where he met the already famous Louis Armstrong who befriended him and taught him to sing in the "scat" style. Calloway was already writing his own music and soon penned a piece on Minnie with whom he had come in contact while playing at the Harlem House, Shugs and Henry's in Indianapolis, a few years earlier.

Folks, here's a story 'bout Minnie the Moocher
She was a red hot hoochie-coocher
She was the roughest toughest frail
But Minnie had a heart as big as a whale.

Parenthetically, as a young man, I saw Calloway dressed in white tails backed up by a 30-piece orchestra perform *Minnie the Moocher* in the Fairmont Hotel's Venetian Room more than 50 years after he wrote the song. He was great.

Webster Defines It

Its first known usage appeared in American print back in 1851. "Moocher" has become synonymous with beggar or sponger, "a person who is supported by or seeks support from others without making an adequate return."

Alright, so I won't impose on your patience any longer. I know right about now you're asking yourselves how in the world is this interesting, if true, story ever going to relate to finance, economics and the markets? Well, the answer lies in the fact that Congress just passed the most major piece of tax legislation in the past 31 years. And they did it with a vote that went down party lines. Without one Democratic Senator voting in favor of it, HR-1, the "Tax Cuts and Jobs Act of 2018" passed and was signed into law by the President. You see, by keeping the financial impact of the law below $1.5 trillion, the law was able to pass by a simple majority in the Senate (51 votes), as opposed to requiring a "supermajority" of the votes.

By now, you have no doubt been bludgeoned by the somewhat confusing particulars of this 440+ page overhaul of our tax system. The bill amends the Internal Revenue code to reduce tax rates, modify policies and address credit and deductions for individuals and businesses. The size and source of your income will determine whether you'll end up paying more or less of federal income taxes than you did under the old laws. Those of us who reside in states with high state taxes, be they income, real estate, property (e.g., your RV, your boat), sales or excise (gas, highway, alcohol, etc.) will probably

feel more burden than gain, but then again, it will come down to just how much income you have and where it is coming from.

Time will tell whether this tax act will create the GDP growth and the national windfall the Republicans are touting or lead to the debt and damnation their Democratic peers espouse. What is unquestionably going to be the case this coming year is a political debate that tries to frame just who is paying their fair share and who is not.

Red State, Blue State, Moocher State

Here's the nut of it: 2018 is a mid-term election year. Although we won't be voting for the President, we will be electing all 435 members of the Congress and one-third of the United States Senate. Although the margin of victory for the tax bill in the Senate was razor thin, this is a piece of a most unpopular legislation, with roughly two-thirds of Americans thinking it's bad law. Law that to some equated to a redistribution of wealth between poorer agrarian economy-based states that have principally voted Republican in recent elections and wealthier Democratically-leaning states with well educated urban populations.

So the argument goes something like this: Many in "Red States" will say there is too much government, too much unemployment by those who are unwilling to work, too much aid to unwed households. It's no wonder that states where this occurs have such high state taxes, such high property taxes, such high business taxes. If that's the way they choose to live, we shouldn't have to supplement it. Why should they get to deduct their state income tax from their income? They should be more frugal like us.

Now, on the other hand, "Blue States" will say, no, no we're not the deadbeats, you guys are the "moochers." They point to a state like Mississippi that received $3.07 for every dollar they spent on federal taxes, had 8.67 federal employees (per capita) and depended on the federal government to fund almost 46% of the state's budget. From there, by comparison, they will point to states like Delaware that received $0.50 for every federal dollar sent to the government; Connecticut with 4.91 federal employees per capita; and Hawaii that receives less than 24% of its state revenue from the federal government. Then they'll ask, "Who's the moocher now?"

Clearly, these issues are not black or white. Consideration must be given to senior population centers and military centers where the numbers get skewed. The question of "federal dependency and federal spending per dollar paid" will surely come to the foreground this coming year, and we're going to hear plenty about it.

By the Numbers

The 115th Congress is currently made up of 239 Republicans and 193 Democrats. That means the Democrats have to pick up 24 seats to win the House. Do you think Congressman Doug LaMalfa, a California Republican from the First District who voted "yea" for the tax bill, or Congressman Tom MacArthur, a Republican from New Jersey's Third District who also voted "yea," are going to feel like they have a target on their backs come November? And they're not alone. Throw in New York Republicans Claudia Tenney, Tom Reed, John Katko and Chris Collins who all voted "yea," and you'll start getting a sense of what 2018 will have in store.

Let Me Bring it Home

Like it or not, the new tax act is law. Law from a business perspective that will in all likelihood bolster corporate profits and enhance bottom lines. True this anticipated windfall to business has been baked into the equity markets to a certain extent as evidenced by their relentless climb upwards these past several quarters. But with unemployment in check, low inflationary pressure (particularly on wages) and business's newfound opportunity to redeploy repatriated funds from overseas along

with now being able to immediately expense capital expenditures, American competitiveness will continue to rise.

Pick up most any financial journal these days and you'll read about a "global synchronized recovery." In other words, parts of the world that have not seen growth in their economies or much in the way of stock value increases since the "Great Recession" are now starting to come out of their funk. It's in precisely those markets that we are seeking opportunity and adding to the international representation in our portfolios.

Another interesting theme that we will continue to develop throughout 2018 will be coping with the elimination of "salt" in our financial diets, *the deduction for state and local taxes*. Many clients may now need to consider in-state high yield tax-free municipals, an asset class whose appeal has now grown considerably.

As we have talked about for an extended period of time, we are keenly watching movement in the debt market. Putting this into global perspective, nearly half of the world's sovereign debt is currently yielding less than 1%. When the river of money starts to dry up, and it will, marginal companies with high debt levels and low interest coverage ratios will be in for big time trouble. That's another reason why the high yield municipal market now has appeal.

A couple of concluding thoughts. This tax bill was driven by lobbyists and politicians, not thoughtful longer term economic analysis. Its effects on individuals may not be clear for some time. After all, these cuts will have to be paid for, so we'll be hearing a lot of talk this next year about debt levels, debt ceilings and cuts to entitlement programs (read that as Medicaid). But perhaps the greatest unknown of all is how socioeconomic discourse evolves amongst our fellow Americans. Can we find that elusive field of compromise where no one is a moocher?

Back in June of 1964, President Lyndon B. Johnson addressed the graduating class of the United States Coast Guard Academy saying: "In 1790, the nation which had fought a Revolution against taxation without representation discovered that some of its citizens weren't much happier about taxation with representation."

Going forward into the new year, one that will be filled with lots of noise and political rhetoric, we will, as we have in the past, continue to embrace our philosophy of focusing on downside protection with a healthy respect for risk management and an eye toward long-term growth in our portfolios.

As always, thank you for listening. Best Regards,

Ray

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