**Robshaw & Julian Associates, Inc.**

*Trusted Investment Advice Since 1979*

# Investment Matters

**For the quarter ended December 31, 2015**

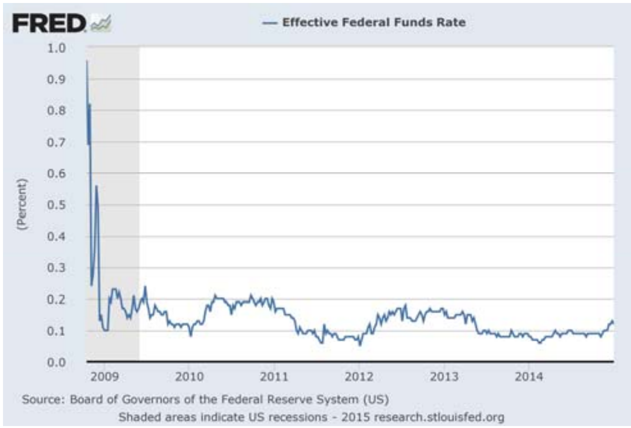
## Go Ahead: Fight The Fed

Wall Street professionals are often admonished not to 'fight the Fed'. If the Federal Reserve Bank is pumping liquidity into the markets, stay in stocks. If the Fed is forced to drain that liquidity from the markets, head for the exits before you are trampled.

Historically, the Fed has adjusted market liquidity by raising or lowering short term interest rates. The so-called Fed Funds rate is now near zero, and has been since December, 2008. Since then stock prices have more than doubled. 'Don't fight the Fed' worked pretty well, despite a few stomach churning nosedives for the stock market in 2009, 2010 and 2011.

Now the Fed is suggesting that it will begin to raise rates later this year, with the exact timing depending on economic progress and inflation. This talk forces all investors to consider how they will react: will they reduce stocks now while prices are high, wait until the Fed actually starts to raise rates or ignore the rule entirely.

As you might expect, Wall Street researchers are looking at history for the right answer. What they have discovered is that stock prices have generally risen during periods of rising short term interest rates. True, most announcements of a rate increase are greeted by a short




THE FED HAS KEPT SHORT TERM INTEREST RATES LOW FOR MORE THAN SIX YEARS.

-lived pullback in prices and stock returns are slightly below average during these periods, but longer term, an increase in short rates is clearly not a death knell for a bull market in stocks.

> "...it should be quite some time before high short term interest rates kill the bull market."

If you think of low interest rates as medicine for the economy, this makes sense. You stop giving medicine when the patient shows signs of getting better. At that point the prognosis for the economy and the market is good. Not the time to sell.

Eventually, the Fed raises rates enough to restrain the economy, usually to quell rising inflation fears. This can take a few months or a number of years. At that point it is usually wise to reduce exposure to stocks. Historically it's not until short rates are at least 1-2% above the underlying inflation trend before stock prices are affected. With core inflation currently running at 1.7%, it should be quite some time before high short term interest rates kill the bull market.

'Don't fight the Fed' sounds clever and is easy to remember, but it's clearly over-rated as a precise tool for buying and selling stocks.

For a complementary review of your investment portfolio please call our office at (716) 633-6555 to schedule an appointment at your convenience.

## Consolidate Now!

Leaving an estate for your loved ones can help assure their long term security, but leaving it in chaotic condition may frustrate them for years after your passing.

Too often, well-meaning people leave behind a tangled web of financial affairs which is very difficult to unravel. The first duty of an Executor is to gather together the assets of the deceased, including financial assets. This is especially difficult if the assets are held by multiple financial institutions, as is often the case.

People of relatively modest means may have as many as twenty different financial relationships, including accounts with banks, brokerages, insurance companies, company retirement plans, mutual fund companies and Social Security. Some of these accounts may involve complex legal arrangements which add to the difficulty and the expense of putting them under estate control. These include accounts with named beneficiaries, trusts, illiquid assets such as real estate or partnerships and real property held in other states. In the case of relatively small holdings, the benefits to the estate may be substantially diluted or even negated by the costs associated with bringing them under control.

This is a bigger problem now

*Continued on page 2.*

### Consolidate: continued

than ever before. Not only is it easier to establish multiple financial relationships with the aid of computers and the internet, but new laws and rules make it more difficult to change or terminate those relationships once they are in place. Growing problems such as internet fraud and money laundering have forced financial institutions to aggressively tighten procedures and authorizations for moving money or changing ownership. These factors have greatly complicated the executor's job.

Now is the time to review your financial assets with this problem in mind. Do you have a valid and valuable reason for each separate financial relationship and account? Are any of your financial affairs likely to be expensive to unravel? Seek advice on which accounts can legally be combined. Ask yourself if there are benefits to having two relationships or accounts where one will do, and if those benefits are truly worth the trouble they may bring to your beneficiaries.

## Abolish the Corporate Income Tax

In a recent op-ed in the Wall Street Journal, business and financial historian John Steel Gordon listed, "Top 10 reasons to abolish the corporate income tax."

On its face, this idea seems to be the antithesis of the concept that every person should pay their fair share of taxes. But corporations are not people; they are organizations which exist to make profits for people. In reality, only people can pay taxes. Trying to tax businesses is a major source of economic inefficiency. It also raises a relatively small percentage of Federal government income which could easily be replaced by higher taxes on individuals.

Initiated in 1909, the corporate income tax was a temporary measure to raise money from the rich until the U.S. Constitution could be amended to allow individual citizens to be taxed on their income. But when the sixteenth amendment was added to the Constitution in 1913, the corporate tax was not repealed. Since then, it could be argued, it has done more harm than good.

Here are his ten reasons:

First, abolition of the tax will eliminate a major engine of tax complexity and opportunity for shenanigans as well as an army of unproductive Washington lobbyists seeking special treatment for their corporate clients.

Second, it will allow business owners to focus on what matters in their business rather than on reducing tax burdens.

Third, corporate dividend payouts could be taxed at ordinary income rates, which in our progressive tax system puts the greatest burden on the rich, and is likely to be viewed as more fair than the current regressive flat rate tax.

Fourth, with the burden of the corporate tax shifted to high tax bracket individuals, businesses investment would likely increase leading to a stronge economy.

Fifth, it would tend to raise stock prices.

Sixth, the complexity and corruption which results from some corporations attempting to quality as non-profit organizations would be eliminated.

Seventh, when U.S. companies earn profits in foreign countries they pay taxes based on foreign tax rates, all of which are lower than U.S. rates. If they bring the money home are they required to pay additional taxes. If corporate taxes were abolished, much of this money would be available for investment in the U.S., an obvious boon to the economy and job creation.

Eight, if the U.S. had no corporate tax, we would be the most attractive country on earth for foreign investment dollars.

Ninth, other countries would be pressured to end corporate taxation, a boon to world economic growth which is currently stagnating.

Tenth, all special corporate tax breaks would be eliminated and along with them all crony capitalism, a significant cause of unwise and uneconomic investments.

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## The Bottom Line: 12/31/2015

| Market Indicator | Current Value | One Year Change |
|---|---|---|
| **Large company stocks** *(S&P 500 Index)* | 2059 | 13.7 |
| **Small company stocks** *(S&P Small Cap Index)* | 695 | 5.4% |
| **Short term interest rates** *(3 Month T-Bill Yield)* | 0.1% | No change |
| **Long term interest rates** *(10 Year T-Bond Yield)* | 2.2% | From 2.9% |
| **Inflation** *(Consumer Price Index)* | 237.0 | 1.3% |
| **Energy** *(West Texas Intermediate Crude Oil)* | 53.716bbl. | -45.6% |
| **The economy** *(Inflation adjusted GDP)* | $17.6 trillion | 2.7% |

QUOTABLE

*"It's waiting that helps you as an investor and a lot of people just can't stand to wait."*

*Charles Munger , Vice-Chairman Berkshire Hathaway*

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