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Commercial Corp Finance,
D/B/A of Gary Meyers Realty, Inc., founded 1977.
Provides Real Estate Consulting and Lending Service.

Issue date: April 9, 2012

THE MEYERS REPORT Economic Notes

One reader asked us in reference to last week's article **Higher Taxes Threaten Recovery:**

"I hope I don't sound partisan here, but there is no evidence over the last 22 years that shows 'past tax increases have created serious headwinds that undermine the economy's ability to grow.' I understand that belief inherent in the Republican philosophy, but research and statistics do not support it. I'd like to see some of your citations."

Mark C., San Francisco

Answer: Understanding this history is particularly important given the major tax increases scheduled to go into effect on New Year's Day 2013.

History clearly shows tax increases undermine economic activity. The US experienced major tax increases from 1913 to 1919, again throughout the 1930s, and during World War II. There were a series of effective tax increases during the 1970s as inflation moved individuals into higher tax brackets. The effective marginal tax rate for most upper income taxpayers went from 26% in 1970 to 38% in 1981. There were less dramatic tax increases beginning in 1993, when the top marginal tax rate was raised from 31.0% to 39.6%.

The periods where tax increases were the greatest—the 1930s and 1970s—represent periods of the worst economic performance in US history. Similarly, the periods from 1913 to 1919 and the years immediately following the 1993 tax increase were periods of sub-par economic performance.

Some inaccurately associate the economy's strong performance in the 1990s with the 1993 tax increase. However, the economy stalled in the three years immediately following the 1993 tax hike. Real growth slowed to an average of 2.7% compared to its long-term average of 3.3%. Productivity growth slowed to an average of only 0.5% a year compared to a longer-term average of 2.0%. The economic boom in the 1990s did not occur until there was a sharp cut in federal spending followed by a cut in the tax rate on capital gains in 1997.

HUMOR

"I don't know the key to success, but the key to failure is trying to please everyone."

—*Bill Cosby*

THE MEYERS REPORT

by Gary S. Meyers and Robert Genetski, Ph. D.

Is Three The Charm?

Fed Chairman Ben Bernanke has made two serious monetary policy mistakes with devastating consequences for most Americans. His current policy represents a third major mistake.

As a Fed member from 2002-2005, Bernanke voted for the inflationary policies that created a speculative boom in the economy and specifically in housing. Then, as Chairman, he engineered a highly restrictive policy, which ushered in the worse collapse in spending since the 1930s.

The current policy of promising to keep interest rates artificially low for the next two years will likely prove to be a third mistake with serious consequences. Last year Fed policy produced an increase in bank reserves of more than 20%. This compares to an average increase of 6% in each of the two previous years. The increase in reserves produced a 10% increase in other key money measures.

The impact of the last year's monetary stimulus is working its way through financial markets putting upward pressure on stock prices. There are signs a number of other sensitive indicators have improved.

Through first quarter 2012, there are still mixed signs regarding the pace of spending and real growth. Recent numbers point to a subdued spending pace of 4%-5% and a real growth rate of 2%-3%.

There are often significant lags between Fed policy and its impact on spending and growth. Recent increases in regulatory burdens have undermined the economy's potential to grow. As a result, the lag between an expansive Fed policy and its impact may be delayed. However, as the monetary stimulus builds, its potential impact becomes progressively more powerful and difficult to contain.

Under the best of conditions it's difficult for the Fed to raise interest rates rapidly enough to rein in excess liquidity. In 2004, the Fed delayed raising interest rates even though there was no advanced commitment to keep rates low. This time, the commitment to keep rates low will make any decision to head off a speculative boom far more difficult.

The bottom line. The commitment to low interest rates for an extended period places an additional barrier in the path of attaining monetary stability. It is a decision that sets the stage for significantly higher inflation and another destabilizing speculative boom.

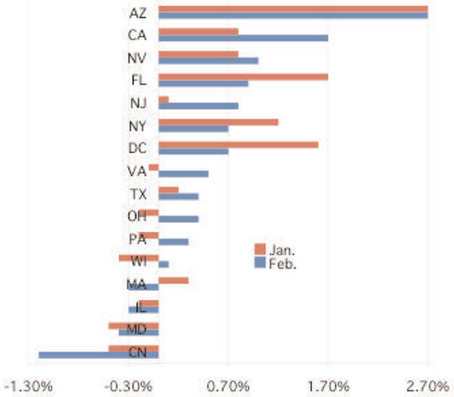
As for the Euro-zone, finance ministers continue to try and overcome destructive policies with financial gimmicks. Various funds designed to stabilize business conditions will create ongoing problems.

"Rescue" funds are usurping available credit from the private sector—in order to bail out public sector debt. There is a fairly limited supply of credit. So, shifting credit to the public sector means there is less credit available for productive, private businesses. Europe's economies will continue to struggle as "stability" funds further destabilize credit markets and undermine economic growth.

Housing Value Trends Revised. In a release last Wednesday of the Home Value Index, CoreLogic cited that non-distressed home prices nationally were up 0.70% for the month, following a 0.4% increase in January over December. In December the average price of a non-distressed sale was at $145,226. By January, this has risen to $145,808 and by February this average was up to $146,858. This is still 24% below the November 2006 average price $193,386, which was the highest point in the housing bubble.

Forecast. Barring additional economic shocks, we have just passed the bottom, making housing a great buy going forward.

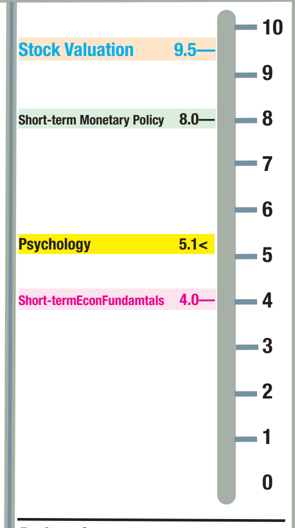
16 Major States : One-month Change



Source: CoreLogic

Robert Genetski's Weekly Financial Update & Stock Impact Gauge

	Fundamental	Actual	Immediate Outlook
Fixed-income: 10-yr Treas.	5.0	2.17	heading higher
Equities: S&P 500	2000	1398	heading higher
Equities: Dow Jones	16,000	13,060	heading higher



Ratings for forces impacting stocks	10 is best — means no change > change for better < the other direction

Market Outlook Most major stock indexes moved only slightly lower this past week. The main exception was the small cap Russell 2000 which fell by almost 2%. This small cap index tends to be more volatile than the other indexes. It closed below its 50-day average. All other major indexes remain above their 50-day averages.

The overall stock market moved to its 50-day moving average before closing slightly higher. While the index did not find support along an upward trending lower channel, it found support at the 50-day average.

The stock market's technical position has continued to deteriorate. While the NASDAQ has held up well, it has done so due to one stock—Apple. Over the past two months as the overall market was unchanged, Apple stock rose by more than a third. Apple's performance masked a more significant weakness in the broader market.

As the broader stock market indexes approach or past key resistance points it presents a key test of whether the pause during the past two months is a normal hesitation or the beginning a significant downward move.

At the moment, economic fundamentals point to a normal pause. Fed policy remains expansive and the economy appears to be responding to additional liquidity. Europe is a mess. However, without the type of liquidity squeeze engineered by US policymakers Europe will avoid the type of financial meltdown the US experienced.

Although market psychology is close to turning from positive to negative, I continue to suspect the market is undergoing a normal pause. If I'm correct, stocks will soon move higher.

Rates on 10-year Treasury Notes ended the week close to where they were a week ago. Corporate rates moved higher. Long-term rates have trended up over the past two months while stocks prices have been mostly unchanged. When long-term rates move higher even as stocks are struggling it increases the odds of higher rates in the period ahead.