

## THE MEYERS REPORT Economic Notes

**Japanese N-power plants closing.** Amid cheering, the Japanese government announced that they are closing all of the nuclear power plants. Here's the problem. Nearly 30% of Japan's electricity was generated from nuclear plants and they were clean.

The plants had a design flaw, not in the nuclear portion, but rather in the back-up power generation system. Consider, Japan has no natural resources, particularly fossil fuels. They will now have to import resources for virtually all of their electricity. The impact will be a drain of capital from their economy, which will raise the cost of everything in Japan.

With this action, the once seemingly all-powerful Japanese economy will be humbled again, as Japan's global influence continues to decline as it has in the last 20 years. Sometimes when a government fails to lead and bows to popular will, bad things happen—a lesson worth noting.

### HUMOR Things Mom Would Never Say

- "No, I don't have a tissue with me. Just use your sleeve."
  - "Leave all the lights on. It makes the house look more cheery."
  - "Curfew is just a general time to shoot for."
- Mother's Day — Sunday, May 13, 2012*

## Case in point ...

**"In addition to providing financing, CCF solves problems. The only thing that slows them down is a client who withholds or imparts inaccurate information. When my clients were in trouble, they brought more resources to the table than I knew existed with any one organization—and they did it quickly. My clients were astounded by the CCF team's tenacity, dedication, and achievements."**

*I. J., referring real estate attorney for group of clients*

**Challenges:** Foreclosure, Diverted Funds, Personal Guarantees, Expired TIF, Expired Approved Land Plan, Engineering Problems, D.O.T. Permits Non-Existent, Local Municipal Officials Angry.

**CCF Action:** In 10 working days over the Christmas and New Year holidays, CCF analyzed the property and market conditions with their engineers and real estate market researchers. Simultaneously, CCF examined all entitlements and TIF agreements with their associated land use legal team, came up with a plan, and met with the lead bank on January 2nd. Almost immediately, the bank slowed and then stopped all foreclosure efforts.

**Conclusion:** In under a year CCF: arranged for the bank release of all clients in the group and their respective personal liabilities; negotiated the property sale to a new buyer and shifted the liability of the second mortgage holders to the new property buyer; and influenced the attitude of the municipality from resentment to full cooperation.

**Bottom Line:**  
Call CCF 224-715-5555.  
Chicago, IL

# THE MEYERS REPORT

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

## Tax Increases, Economy, Europe and the US Election

The most significant tax hike in US history will occur on January 1, 2013...and will impact the coming presidential election. Workers with up to \$20,000 in taxable income would receive at least an 8% cut in take-home pay. Others in the middle and higher income brackets will feel a greater bite.



re-elected, look for the damage associated with his tax and spending policies to be reflected in the economy, the stock market and the mood of electorate.

Our forecast, expect Governor Romney to be elected President. As the election approaches, the prospect of a major cut in take-home pay and other issues won't appeal to many voters.

### Major Automatic Tax Increases Set for January 1, 2013

- 3% point increase in most tax brackets (5% points for lower incomes)
- 2% payroll tax increase on wages & salaries
- 0.9% Medicare tax increase on wages & salaries
- 3.8% surtax on investment income (high incomes)
- 2% increase due to end of AMT patch (middle incomes)
- 15% tax on dividends to ordinary income rate
- 5% pt. increase in capital gains tax
- Estate tax from 35% to 55% (\$3.5 million estate)
- Plus, about fifty less important tax hikes.

The biggest percentage increase for lower wage workers comes when the Bush tax cuts end and payroll taxes increase. In addition, various taxes associated with the "Affordable" Health Care Act kick in.

The President favors most of these increases. His budget anticipates collecting \$235 billion more taxes in 2014 than Ryan's House Budget. It costs a lot to expand the role of the federal government and an 8% or more cut in take-home pay is only the first installment.

The outcome of the November elections will have a major impact on the role of government and on the magnitude of the coming tax hike. Financial markets tend to anticipate the impact of such major changes.

While recent polls show the President with a substantial Electoral College lead over Governor Romney, we believe that this will change as the election approaches. While it appears the President will be

**European factor.** As the election approaches, Europe's spending and debt problems are likely to get worse. This will remind voters of the importance of electing the person perceived as most competent to limit spending and debt. Few would give the nod to the President in this area.

**Religious freedom** is yet another major issue. The Catholic Bishops (<http://bit.ly/IFtoFN>) statement on religious liberty spells out what is at stake. There are many in the US to whom religious liberty is more important than any economic issue. They will not be voting to re-elect the President.

**Hispanic vote.** The majority of Hispanics are Roman Catholic and will be impacted by the above. However, in addition, there is a natural culture clash between the Black and Hispanic communities, which is being made worse by other issues, including the racial overtones associated with the Martin-Zimmerman case, where Zimmerman is Hispanic. While Gov. Romney may not be highly attractive to Hispanic voters, the President is creating resentment with Hispanics, according to one prominent Hispanic Chicago politician. There are other groups where the President is seeing erosion. Even if it is one point or two here and there; it all adds up.

**The bottom line.** Our call in November—it's Romney. If the economy or other events move against Obama over the summer, the election results might not be close at all.

### Robert Genetski's Weekly Financial Update & Stock Impact Gauge

	Fundamental	Actual	Immediate Outlook
Fixed-income: 10-yr Treas.	5.0	1.92	neutral
Equities: S&P 500	2000	1392	neutral
Equities: Dow Jones	16,000	13,207	neutral

Friday's employment report was weak, but not awful. The report follows a positive, but weaker than expected survey from service companies. While the two reports suggest the pace of the recovery is slowing, I'm inclined to believe they simply reflect the normal ebb and flow of economic news.

**Market Outlook** Stock prices moved lower this past week with most of the major indexes falling ½%-1%. The two outliers were the Dow (unchanged) and the Russell 2000 (down 2%).

Most of the weakness in stocks came on Thursday as the ISM survey of business activity came in below expectations. The decline kept the overall market in a weak state with the 10-day average below the 50. The NASDAQ also registered this so-called "cross of death." For the Dow and S&P 500 the 10-day average remains above the 50-day.

Trading volume has been negative. In recent weeks there were three days where the market fell on higher trading volume. Most advances have come on average or below-average volume. There are no recent periods where stocks rose on higher volume. This is the opposite of what we would like to see.

The overall market has formed a symmetrical triangle. My technical guru Joe Barto says the market can go either way from this formation.

I still believe liquidity is plentiful and the economy is a bit stronger than recent numbers would suggest. If so, any downturn in stock prices is likely to be more related to psychology than fundamentals. Without a clearer sense of direction from technical indicators, I'm maintaining my neutral stance with respect to stocks.

As stocks weakened, longer-term interest rates moved lower. Rates are back to a range that has held for the past eight months. They are likely to remain here for the period immediately ahead.

