

INVESTOR'S EDGE

There's no reason to fear the tax man

Economists are predicting the best GNP growth in 50 years.

"Taxation WITH representation ain't so hot either" — Gerald Barzan



Jim Burns CFA
Contributing columnist

"One year ago — to the day — the Dow Jones Industrial Average stood at 23,775. As I write this, the Dow is just over 34,000 — a stunning 43% return!

Throughout my columns last year, I implored you to not sell your stocks or stock funds, to remain bullish, and be "brilliant at the basics" of investing. I sincerely hope you took my advice; you are richer for it.

Lately, however, I have been receiving quite a few emails from our readers, who are concerned about where markets go from here. Specifically, recently proposed increases in capital gains, speculative fervor surrounding cryptocurrencies and unprofitable companies, combined with markets selling at all-time highs, have many investors worried.

So, in this column I am going to revert to the tried and true question and answer form to answer your questions.

Let's roll:

Q: I hear that President Biden's capital gains tax increase will surely lead to a market sell off. What should I do?

A: President Biden's capital gains tax increase is focused solely on high-net-worth individuals and taxable institutional portfolios. These big stock holders may want to sell some winning stock positions and lock in a lower capital gains rate. So, this could lead to a short-term market decline.

According to David Kostin of Goldman Sachs, for the last three capital gains hikes, in 1987, 1988, and 2013, stocks did fall modestly in the run up to the rate change but more than made up for it quickly afterwards.

Furthermore, I believe that if markets viewed this capital gains proposal as likely to be passed in its current form, it would have had a significant correction after the news was announced — which it did not. So, while I think that some changes to the tax code including capital gains are possible, keep in mind that

political margins within the House and Senate are razor thin, so a serious watering down of any proposal is likely.

It's nice to hear that you were bullish a year ago, when the stock market was well off its all-time highs. But with the Dow now up 40% over the last year, how can you still be bullish?

I certainly do remain bullish for the remainder of 2021 and over the next few years. We are entering a "Great Re-opening" with massive pent-up consumer demand.

In fact, it has been reported that American consumers are sitting on an additional \$3 trillion in savings compared to what they started the pandemic with and now have around \$5 trillion in total cash sitting on the sidelines!

In fact, economists are forecasting the best U.S. GDP growth in 50 years as COVID restrictions ease, more Americans get vaccinated, and economic activity begins to return to normal levels.

Interest rates remain near historic lows and likely will remain that way until 2023. Therefore, there is little competition to stocks, as bonds and CD's will continue to offer paltry results from both a yield and capital appreciation perspective.

Finally, corporate earnings — the real driver of stock returns — are expected to deliver 25% growth for 2021 and 15% growth in 2022. Sounds pretty good to me.

Rising inflation, COVID, and unforeseen events are always a concern.

But I look at probabilities when investing, and I believe that the tailwinds far outweigh the headwinds at this time. I

remain bullish.

What is your view on the new Coinbase IPO? Is this a backdoor way to get exposure to Bitcoin and related cryptocurrencies?

Coinbase is an American company that operates an exchange where investors can buy, sell, and trade cryptocurrencies like Bitcoin and Ethereum. Coinbase offers secure storage of digital assets, is protected by insurance, and is widely regarded as the gold standard for accessing cryptocurrency investments.

The company recently went public with a valuation of \$100 billion which is pretty hard to justify.

As a comparison, Coinbase is worth more than any other of the stock exchanges in the United States, including

the NASDAQ and even the New York Stock Exchange. So, I view it as a totally speculative investment and do not have any interest in investing at this time.

Any other financial recommendations?

Yes. If you have been vaccinated, go have a good time and support our local businesses and restaurants. We have earned it.

Cheers!

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com

J.W. BURNS & COMPANY, INC.
INVESTMENT COUNSEL

Important Disclosure Information

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by J.W. Burns & Company, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from J.W. Burns & Company, Inc.. Please remember to contact J.W. Burns & Company, Inc., **in writing**, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. J.W. Burns & Company, Inc. is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the J.W. Burns & Company, Inc.'s current written disclosure statement discussing our advisory services and fees continues to remain available upon request.