

New President, New Predictions, New Forecasts **by John V. Kamin**

There are certain pro forecasts we can make regardless of the election outcome. What will be the new President's policies and plans for 2009 to 2012? Sometimes folks say one thing and do another. Sometimes circumstances change and the things they said during the election campaign prove to be impossible to implement due to a changed economy, brushfire wars and new challenges.

For example, Bush #2 only in office a short time had to deal with the tech-wreck of 2000 that began under Bill Clinton and extended into 2001. Bush also had to deal with the nasty terrorist attack of September 11, 2001.

Prediction 1: Foreign leaders will test the new President quickly. I predict within the first six months. Test may come from several foreign directions. Tests could include those people who hate America, but also tests by left-leaning allies who are competitors to USA for markets, scarce capital, customers, contracts and foreign aid.

I predict there will be more than one test but there could be several big ones. When tests occur, don't engage in denial, recognize tests for what they are and strategize accordingly. I predict the testers will push USA aggressively.

Prediction 2: The new President will have to deal with monster budget deficits, biggest in recorded history. Once the money printing and bailouts start and normal business cycle pressures take hold, there will be anguished cries for more money, here, there, everywhere. Keep in mind that government has no money of its own ... all the money comes from taxpayers. Money can also come from borrowing, which will have to be repaid, debts plus interest over time, again to be repaid by taxpayers. As Mark Twain put it, "No man's money or property is safe while the legislature is in session!"

Prediction 3: Expect a revival of inflation, a worsening of inflation. You can't print \$1 trillion fiat money and debt and not expect inflation. Inflation's accompanying counterpart is loss of purchasing power of the US dollar. Lately, the US dollar has been strengthening against other major currencies, such as the Euro, the pound, the Canadian dollar, the Australian dollar and the Japanese yen. That doesn't mean the US dollar is gaining purchasing power, it just means that the US dollar is losing purchasing power at a slower rate than other major competing currencies.

For example, if you have two leaky tires on your car, one tire losing air at a rapid rate and one tire losing air at a slower rate, both have to be dealt with. It doesn't mean one leaky tire is better than the other leaky tire. All currencies lose purchasing power, fiat money unbacked by gold and silver over the long term. They just lose it at different rates.

Prediction 4: When will inflation hit, with the possible return of double-digit inflation? I predict within nine to 24 months from now. But, it could happen sooner. Governments (and USA is not immune) often try to mask inflation. Some governments "pretend"

inflation is not a cause for worry. Some governments fall back on failed practices such as wage/price/rent controls. Price controls may provide temporary relief for inflationary symptoms, sort of economic aspirin, but the controls don't work over long periods of time. Some of you may recall JFK railing against steel price increases, President Lyndon Johnson's 10% "temporary" income tax surcharge to cure inflation, Nixon's prediction of a "peace dividend" as soon as the Vietnam war ended. President Nixon imposed wage price rent controls on August 15, 1971 and those did not work. Remember President Ford's little WIN buttons, which stood for "Whip Inflation Now"? They didn't work.

Probably the worst performance against American inflation and the loss of purchasing power was in the waning years of the Carter administration, when the prime rate shot up to 16%, inflation hit double-digits, 16%. House prices were increasing at the rate of 2% per month in 1979 throughout the year. Gold shot up from \$35 an ounce under Johnson to \$800 per ounce by 1980 under Carter as people sought hard assets to mitigate inflation's effects.

Prediction 5: Higher taxes are inflationary. Taxes are a cost of doing business, so businesses raise selling prices or go bankrupt. The higher prices dilute the purchasing power of US dollars.

All this takes time. Often, I, (and the rest of the general public who may reflect and see certain things happening) expect changes to happen even faster. But changes usually are slow, economic changes take time to influence people's minds and spread throughout the economy.

For example, gas prices had to reach \$4.50 per gallon in states such as California before pump prices convinced people to cut back on unnecessary driving, carpool and change their lifestyles. Now, even though gas prices have tumbled by one third from their highs, driving cutbacks still influence drivers. If gas prices keep tumbling, it's possible that people may revert to their old wasteful driving habits, speeding, etc. But if pump prices stay high and don't tumble, people may embrace permanently their new limited-driving schedules.

Prediction 6: I expect there was a great deal of "tax loss selling" to harvest tax losses during the last few months of 2008 so that losses could be deducted from taxable income.

Prediction 7: I also expect tax loss selling to continue right into 2009 *if* taxes are raised (presumably to defray the bailout deficits and budget deficits). Those who are in the higher tax brackets will do the tax loss harvesting. The write-offs are more valuable to those who are in higher brackets.

Prediction 8: Expect small businesses as well as medium and large to search aggressively for assets they can sell at a loss that do fit their business plans, so that they can lower their total tax bill as well as raise fresh money.

Prediction 9: Higher proposed taxes will jumpstart a massive search for tax shelters by those who pay 60% of all income taxes, the top 5% of income earners. They'll use trusts and syndications; borrow heavily with tax-deductible interest, research credits and other legal devices.

Prediction 10: Look for individuals to spend more tax-deductible money on business expenses, business travel, business vehicles and computers and equipment; whatever promises to generate or retain business and income.

Summary

There will be many changes ahead, including challenges for the new President and his administration. We wish our new leadership well, although a number of voters always are clearly dissatisfied with the election results.

As we get more incoming data and a clearer read on the new policies and changes ahead, we'll analyze them for you to benefit. We'll also closely watch the appointed and reappointed advisors to the new President since advisors' past activities and past reputations are a good indicator (though not perfect) of which way advisors lean with their policies and advice.

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