This Publication Brought To You Courtesy Of:

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CLIENT BULLETIN

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➢ *Tax Information*

In the next few weeks we will be sending out investment-related tax information directly to your tax preparer that they will need to complete your 2012 income tax returns. If you have any questions or need any additional information please just let us know and we will try to make the whole process as painless as possible.

➢ *First a Cliff, then a Ceiling then a…*

By barely avoiding a combination of tax increases and government spending cuts with an 11th hour agreement on New Year's Eve, Congress demonstrated that they will only act when there is a "forcing event" – a circumstance where the consequences of inaction are intolerable. With each forcing event, however, Congress kicks an ever-larger can a shorter distance down the road. The recent fiscal cliff compromise leaves the country with three new forcing events in the first quarter of 2013:

- On December 31st the United States government hit its debt limit. Since that time the Treasury Department has been keeping the lights on by transferring money to and from a byzantine labyrinth of federal government accounts. The Treasury will run out of options sometime in late February or early March.
- The fiscal cliff compromise delayed the implementation of "required" sequestration spending cuts until March 1st.
- Congress has authorized funds to run the government only through March 27th.

➢ *The End of Can-Kicking*

None of the above forcing events substantially address our country's biggest economic problems – structural budget deficits going forward and accumulated debt from the past. It will be difficult to significantly improve those situations unless Congress addresses Medicare and Social Security costs, which they do not seem to have the stomach for, at least not right now. As a result, expect years and years of difficult lawmaking and smaller deals raising taxes and cutting spending. Sound like fun?

- ***Debt Ceiling Primer***

As debate switches to the debt ceiling it is important to understand the fiscal realities being discussed. The debt ceiling refers to the federal government's statutory borrowing limit of $16.394 trillion. Many people think that raising the debt ceiling gives the government a license to spend more money in the future. In reality, it simply allows the Treasury Department to continue to pay all of the country's obligations that Congress has already approved in the past.

- ***Political Football***

The debt ceiling often affords whichever party is out of power at the time the opportunity to extract concessions before allowing more borrowing to occur. Compare then-Senator Obama's comments in 2006 about raising the debt ceiling - "Increasing America's debt weakens us domestically and internationally. I therefore intend to oppose the effort to increase America's debt limit" - to his current stance that "only a long-term debt-limit increase is responsible fiscal policy". As the saying goes, "Where you stand depends on where you sit".

- ***Ignore the Drama***

The debt-ceiling debate inevitably brings about dire predictions and threats of impending doom from both sides of the aisle. At current rates of spending and taxing, federal tax receipts cover only about 60% of federal spending. Without raising the debt limit to give the government the ability to borrow the other 40% what would happen? Default! Government shut-down! Delaying social security checks! Leaving soldiers unpaid! the headlines will read. To remedy the situation, improbable solutions such as a trillion dollar platinum coin and selling Yellowstone will be proposed. All of this makes for good media, but we already know how this tragic-comedy will most likely end. Since Congress has ***already*** authorized the spending, the constitution requires that the debts be paid. As a result, the only questions are "how" and "when" they will raise the debt ceiling, not "if". This is why lawmakers, under both Democratic and Republican presidents, have raised the debt limit 76 times since 1962.

- ***Economic Impact***

A recent report from the San Diego Association of Governments demonstrated the stunningly positive economic impact one company can have on a region. According to the report, wireless chip giant Qualcomm employs 11,755 full and part-time workers in San Diego County paying $1.24 billion of salary annually to county residents. The impact just multiplies from there – every dollar generated by the company equates to nearly $2 of economic activity in the region; Qualcomm adds $4.53 billion in economic activity in the county – about the equivalent of the 2012 London Olympic Games. It seems to me the key to any region's economic future would lay in attracting or growing 10 more Qualcomm's.