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CLIENT BULLETIN

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➢ *Rancor Delayed*

In a somewhat surprising move, Congress passed a major funding bill with relatively little fuss recently to keep the government operating for six months past its current funding deadline, which was March 27th. The deadline was thought to mark another major showdown in an ongoing series of political brinksmanship, but apparently neither party had the stomach for a government shutdown right now. This "continuing resolution" locked in the sequester budget cuts that recently went into place but did ameliorate some of the adverse effects of sequestration.

➢ *A Little More Discretion Please*

The original sequestration cuts imposed across-the-board spending reductions that did not stop at the agency level. Rather, the cuts went down ratably to spending accounts of each department. For example, the Secretary of Defense could not re-allocate funds from non-essential defense functions to keep the armed forces at current levels. The continuing resolution gives agency heads the flexibility to impose the cuts as they best see fit within their departments – a much healthier way to make cuts when they are necessary.

➢ *Easing Labor Pains.*

As Europe tries to dig out of the huge economic hole it has dug for itself, it is *beginning* to make some fundamental economic reforms, particularly in labor markets. These efforts ultimately promise a more durable response to Europe's problems than stopgap financial aid from the European Central Bank or the International Monetary Fund. Dysfunctional labor laws in France, Spain, Italy and elsewhere in Europe seem designed to discourage hiring. In order to layoff an employee in the event of an economic downturn, firms often have to go through long arbitrations and pay several years' worth of salary as severance. Additional rules further limit the latitude of companies to adjust working hours to meet cyclical ups and downs. No wonder companies are slow to hire. France in particular has slowly begun easing labor restrictions.

➢ *Hiring Roadblocks Back Home*

Back here in the United States, a sluggish economic recovery has left the unemployment rate stubbornly high. Small businesses hire a majority of the people in this country so why aren't they hiring more? A recent poll from the Bespoke Investment Group gives the answer: when asked what the biggest impediments were to expanding their businesses and additional hiring, the number one and two answers given by small businesses were: Government Red Tape (21%) and Taxes (21%). Every politician who is asked, "What are you doing about the unemployment situation?" should have these figures top of mind.

➢ *Stocks at a High; or Not*

Mainstream financial journalism has daily headlines that read something like this: Stocks Hit All-Time highs", with a sub-title along the lines of "Party Unlikely to Last." Their conclusion is based on the notion that because equity markets are ***nominally*** in new high ground, they must be ready to fall. A comparison of the S & P 500 in October 2007 at the last all-time high of 1,565, and today at almost exactly the same level, however, is instructive. In 2007 the 500 largest U.S.-based corporations had earnings of $82.54, paid a dividend of $27.73 and the yield on the 10-year treasury, a comparison point for the valuation of stocks, was 4.5%. Today, earnings on the S & P 500 are over $102 with the dividend at $30.44 and the 10-year treasury yielding 1.89%. These figures provide a better comparison based on an objective standard. As always, let me ritually deny anything predictive in this analysis. There is no forward-looking statement here – just a suggestion: don't let financial journalism do your thinking for you. (source: BTN Research)

➢ *Feeling Generous?*

The total debt of the U.S. government has doubled since the end of 2005 – from $8.2 trillion to $16.4 trillion as of 12/31/12. Any taxpayers who feel they aren't carrying their fair share of that debt can make a voluntary donation by checking account or credit card to help pay down the national debt at the website:
https://www.pay.gov/paygov/forms/formInstance.html?agencyFormId=23779454

➢ *Taxing Health Plans?*

If you are one of the more than 150 million Americans who get health insurance from your employer, you could be in the cross hairs for revenue raising ideas to help balance the budget. In most cases, employer-provided health-plan costs are excluded from income, which means they are tax-free to employees. Most employees are unaware of how large this benefit is. According to the Kaiser Family Foundation, the average health-insurance premium per family last year was $16,427. Since 1997, employer-sponsored health care has exceeded the mortgage interest deduction as Uncle Sam's most costly tax break. The Affordable Care Act already mandates that the value of an employer-sponsored health plan be reported on W-2 forms for 2012 even though the amount is not yet taxable.