

Trump's Tax Plan: Bad News For Amazon, Tesla, And Netflix Shareholders

Feb. 24, 2018 9:00 AM ET 369 comments
by: Seven Corners Capital Management

Summary

- Trump's recently passed corporate tax cut bill should lead to larger deficits, increasing inflation, and higher interest rates.
- Warren Buffett explained back in May 1977 how inflation swindles the equity investor.
- Expect marquee tech stocks such as Amazon, Tesla, and Netflix to be most negatively impacted by passage of the tax bill.

Trump Tax Plan's Effect on Inflation and Interest Rates

As everyone now knows, President Trump got his corporate tax reduction bill passed in late December, lowering the tax rate on domestic business from 35% to 21%. Thus far, most investors and pundits have focused on how the lower corporate rate is a boon to big companies nationwide. Obviously, lower taxes should lead to higher profits, all else remaining equal. However, what has received a bit less attention is the effect that the tax plan will have on future interest rates and inflation. According to the Congressional Budget Office, the tax plan will add an additional \$1.4 trillion (yes, that's \$14 followed by 11 zeros - or, if one prefers, 1,400 stacks of \$1,000,000,000 each) to the federal debt over the next decade. Clearly, with the economy already strong and with debt levels already high, the tax bill should almost certainly result in higher levels of future inflation and, hence, higher future interest rates.

Indeed, it took only a month and a half after the tax plan's passage for investors to feel the first jolts from higher inflation, as CNN reported on February 6th:

Be careful what you wish for.

Wall Street partied hard while President Trump pushed for huge business tax cuts that the economy didn't really need. Tax cut euphoria carried the Dow a breathtaking 8,000 points to levels never seen before.

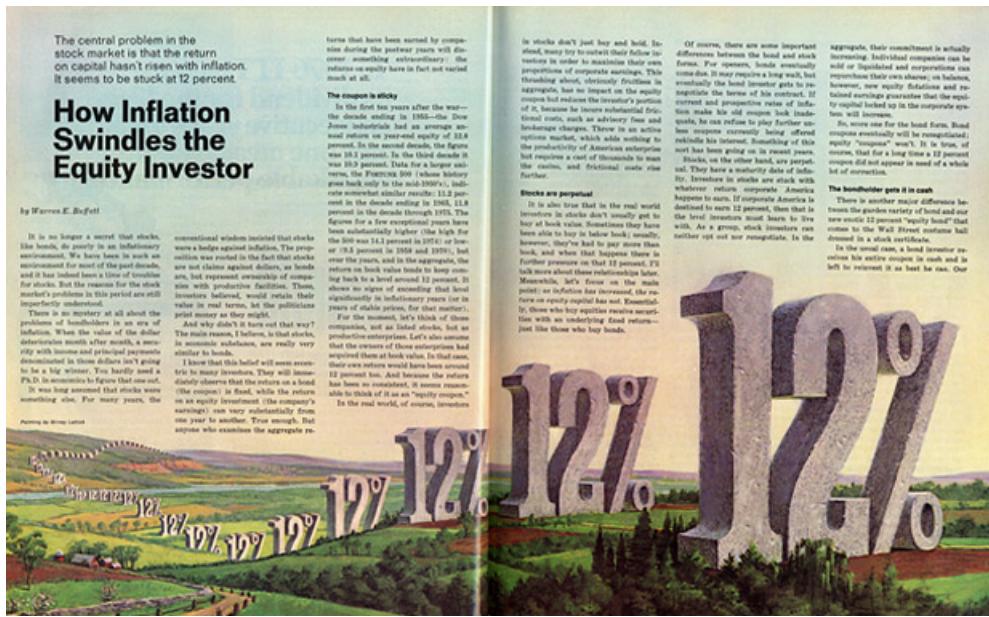
Now comes the hangover. Investors are remembering that giving lots of medicine to an already healthy economy can have side effects, namely inflation.

Those inflation fears are suddenly rocking Wall Street. They sent the Dow plummeting 1,800 points in just two trading days. The losses wiped out a quarter of the gains since Trump's election.

For months, investors basically ignored the threat that the tax cuts might backfire, causing bond yields to spike and raising the likelihood that the Federal Reserve will have to raise interest rates faster to fight inflation.

"We have an infinite capacity for self-delusion as investors," said Bruce McCain, chief investment strategist at Key Private Bank. "When we feel good, we don't want to be bothered by reality."

How Inflation Swindles the Equity Investor



The central problem in the stock market is that the return on capital hasn't risen with inflation. It seems to be stuck at 12 percent.

How Inflation Swindles the Equity Investor

by Warren E. Buffet

It is no longer a secret that stocks, like bonds, do poorly in an inflationary environment. We have been in such an environment for the last decade and it has indeed been a time of trouble for stocks. But the reason for the stock market's poor performance in this period are still completely understood.

There is no mystery at all about the reason for the stock market's poor inflation. When the value of the dollar deflates over months after months, a security with a fixed nominal payment due to it in the distant future will prove to be a big winner. You hardly need a PhD in economics to figure that out.

It was long assumed that stocks were something else. For many years, the

commodification window insisted that stocks were a hedge against inflation. The proposition was rooted in the fact that stocks were not just aggregate dollars, as bonds are, but represented ownership shares with productive facilities. These, investors believed, would retain their value in terms of the real purchasing power money as they might.

And why didn't it turn out that way? The answer is that stocks, like bonds, in economic substance, are really very close to bonds.

I know that you will soon eventu-

ally observe that the return on a bond is an equity investment (the company's earnings) can vary substantially from one year to the next. That is not surprising who examines the aggregate re-

turns that have been earned by companies during the past few years will discover something extraordinary: the returns on equity have in fact not varied much at all.

The coupon is sticky
In the first ten years after the war—the decade ending in 1955—the Dow Jones Industrial Average had an average annual increase on year-to-year basis of 12.8 percent. In the second decade, the figure was 10.3 percent. Data for the third decade, however, the FORTUNE 500 (whose history goes back only to the mid-1950s) indicates an average annual increase of 11.8 percent in the decade ending in 1965, 11.8 percent in the decade through 1975. The average annual increase in the fourth decade has been substantially higher (the high for the decade ending in 1985 is 14.3 percent) or lower (the low for the decade ending in 1995 is 8.8 percent). Over the years, and in the aggregate, the return on book value tends to keep coming back to 12 percent. This is not to say that there shows no signs of exceeding that level significantly in inflationary years (or in years of deflation).

For the moment, let's think of those companies, as are listed stocks, but as though they were not listed stocks. Let's assume that the owners of those corporations had acquired them at book value. In that case, the stockholders would have been paid 12 percent too. And because the return has been so consistent, it seems reasonable to think of it as an "equity coupon."

In the real world, of course, investors

in stocks don't just buy and hold. Instead, many try to correct their fellow investors in order to maximize their own proportion of corporate earnings. This, though, does not affect the aggregate, which, as we have seen, has no impact on the equity market. But it does affect the owner's position if he has invested his money in additional costs, such as advisory fees and brokerage charges. Throw in an active option to buy or sell, and you add to the productivity of American enterprise but requires a cost of thousands to manage the options, and, of course, costs rise further.

Stocks are perpetuated
It is also true that in the real world investors in stocks don't usually get to buy at book value. In fact, they have not been able to buy at book value for a long time, however, they've had to pay more than book, and, when they do, there is a price premium on 12 percent.

If we talk more about these relationships later, Monday, let's focus on the main point: in inflationary years, the return on equity capital has not, essentially, gone up who buy equities receive securities with a fixed nominal value, just like those who buy bonds.

Of course, there are some important differences between the bond and stock forms. For starters, bonds eventually come due. It may require a long wait, but eventually, the issuer gets to renegotiate the terms of his debt. And, given the current and prospective rates of inflation, the real return on bonds looks less impressive, currently being offered less interest than ever before.

Stocks, on the other hand, are perpetuated. They have a maturity date of infinity. They are not subject to any kind of

return for the bond form. Bond coupons eventually will be renegotiated; equity "coupons" won't. It is true, of course, that for a long time a 12 percent coupon did not appear in most of a white lot of corporations.

The bondholder gets it in cash

There is another major difference between the bond and stock forms:

new stock 12 percent "coupons" that come to the Wall Street costume ball room in a stock certificate.

In the real world, a bond investor receives his entire equity in cash and is left to reinvest it as best he can. Our

So, what does all this mean for shareholders? Back in May 1977, Warren Buffett wrote an article for Fortune magazine (full article linked here) entitled "How Inflation Swindles the Equity Investor". Given that we now appear to be heading into an era of higher inflation, it pays to take a look back at Buffett's thoughts on the subject from nearly 41 years ago. How does Buffett describe the relationship between inflation and equities in the Fortune article? First, he refutes the previously accepted view that equities act as an effective hedge against inflation:

There is no mystery at all about the problems of bondholders in an era of inflation.

When the value of the dollar deteriorates month after month, a security with income and principal payments denominated in those dollars isn't going to be a big winner.

You hardly need a Ph.D. in economics to figure that one out. It was long assumed that stocks were something else. For many years, the conventional wisdom insisted that stocks were a hedge against inflation. The proposition was rooted in the fact that stocks are not claims against dollars, as bonds are, but represent ownership of companies with productive facilities. These, investors believed, would retain their value in real terms, let the politicians print money as they might. And why didn't it turn out that way? The main reason, I believe, is that stocks, in economic substance, are really very similar to bonds. I know that this belief will seem eccentric to many investors. They will immediately observe that the return on a bond (the coupon) is fixed, while the return on an equity investment (the company's earnings) can vary substantially from one year to another. True enough. But anyone who examines the aggregate returns that have been earned by companies during the postwar years will discover something extraordinary: the returns on equity have in fact not varied much at all.

Basically, Buffett takes the view that equities are disguised bonds that pay around 12% on par value (i.e., book value, or shareholders' equity). Thus, stocks are hurt just as much as bonds when inflation rises because the price-to-book ratio (and, consequently, price-to-earnings and price-to-sales ratios) for stocks must necessarily decrease just as a bond's price decreases in inflationary times. Conversely, the lower the relative level of inflation, the higher bond prices rise and the more P/B, P/E, and P/S multiples for stock expand (all other things being equal).

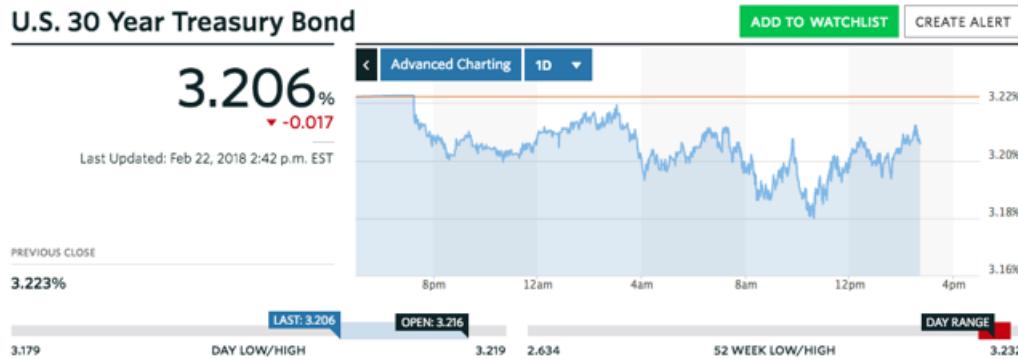
Buffett goes on to identify a key additional characteristic of low inflationary environments: they favor companies that reinvest their earnings (versus paying them out via dividends). Why? Because when stocks are trading at 3.4X book value, as they are today, every \$1 of cash from operations that gets reinvested in said book value should translate into an incremental \$3.40 in market value for the shareholder (versus worth just \$1 when paid out as a dividend, or even less after payment of taxes thereon). Buffett explains further:

This characteristic of stocks - the reinvestment of part of the coupon - can be good or bad news, depending on the relative attractiveness of that 12%. The news was very good indeed in the 1950s and early 1960s. With bonds yielding only 3 or 4%, the right to reinvest automatically a portion of the equity coupon at 12% was of enormous value. Note that investors could not just invest their own money and get that 12% return. Stock prices in this period ranged far above book value, and investors were prevented by the premium prices they had to pay from directly extracting out of the underlying corporate universe whatever rate that universe was earning. You can't pay far above par for a 12% bond and earn 12% for yourself.

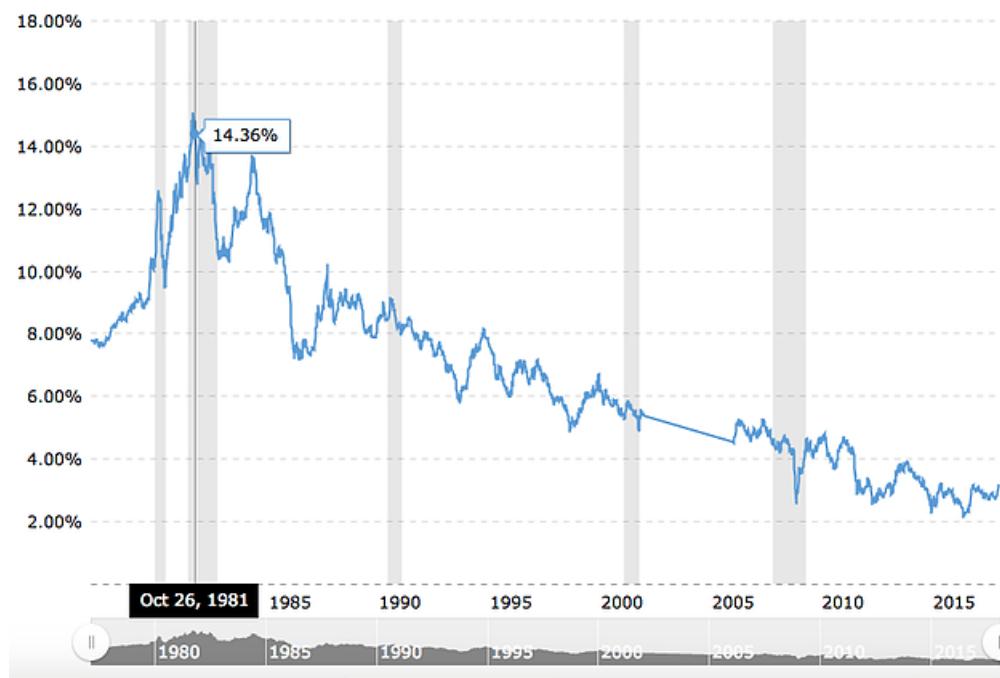
But on their retained earnings, investors could earn 12%. In effect, earnings retention allowed investors to buy at book value part of an enterprise that, in the economic environment then existing, was worth a great deal more than book value.

It was a situation that left very little to be said for cash dividends and a lot to be said for earnings retention. Indeed, the more money that investors thought likely to be reinvested at the 12% rate, the more valuable they considered their reinvestment privilege, and the more they were willing to pay for it. In the early 1960s, investors eagerly paid top-scale prices for electric utilities situated in growth areas, knowing that these companies had the ability to re-invest very large proportions of their earnings. Utilities whose operating environment dictated a larger cash payout rated lower prices.

We note here that the 30-year Treasury bond yield has jumped up recently, appreciating about 45 bps over the past six months to the ~3.20% level (source):



Granted, we are not even remotely close today to the ~15% level of the early 1980s, however, for equity investors, we currently appear to be moving in the "wrong" direction, at least if one buys into Buffett's thesis. Indeed, looking at the very long view, it appears that the ~35-year bond bull market may finally be ending (source):



Now, we know why investors have been in love with so-called "growth" companies (especially big tech companies) during the recent moderate growth, low interest rate, and low inflation environment. These tend not to pay dividends but rather reinvest all their cash flows into existing or new operating businesses. Consider Amazon (AMZN) for a moment. All operating cash flow is plowed back by Jeff Bezos either into the existing retail business or in newer businesses such as Amazon Web Services. Unfortunately, the higher interest rates rise, the lower the relative benefit of the reinvested dollar for shareholders, and the less attractive "growth" stocks look compared to stodgy dividend payers like AT&T (T) or General Motors (GM) (again, other things being equal).

Buffett notes that a "reversal" phenomenon took hold in the mid-to-late 1960s just after major institutional investors had stampeded into growth stocks at nosebleed valuations:

This heaven-on-earth situation [regarding the superiority of growth stocks in low interest rate environments] finally was "discovered" in the mid-1960s by many major investing institutions. But just as these financial elephants began trampling on one another in their rush to equities, we entered an era of accelerating inflation and higher interest rates. Quite logically, the marking-up process began to reverse itself. Rising interest rates ruthlessly reduced the value of all existing fixed-coupon investments. And as long-term corporate bond rates began moving up (eventually reaching the 10% area), both the equity return of 12% and the reinvestment "privilege" began to look different.

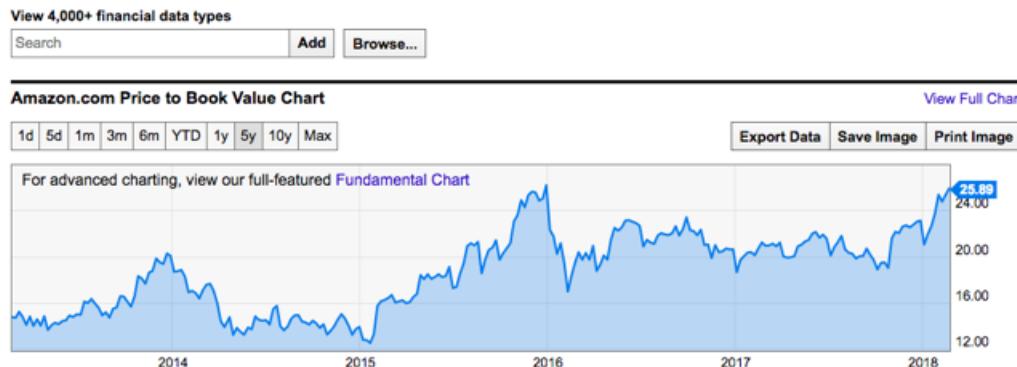
Are we on the precipice of a new downward revaluation of stocks, given looming inflation? Today, stocks trade around 3.4X book value, compared to 2.0X book value in 2009 and just 1X book value in 1980. Let's take an extreme scenario where interest rates are rising significantly and investors are only willing to pay book value for the S&P 500 again, as they did at the conclusion of the last bond bear market. Obviously, a growth company that trades today at 10X book value pays no dividends and earns 15% return on equity has much more potential downside than a dividend payer trading at 1.5X book value also

earning 15% return on equity, since, even if the former were to trade at a consistent 3X the market multiple of book value (as it does now), it would still lose 70% of its value in the adverse scenario (i.e., its valuation would be reduced from 10X book to 3X book). In comparison, the dividend payer now trading at 1.5X book value might trade down to 1X book in the adverse scenario, meaning it would only have 33% downside, or less than half that of the growth stock.

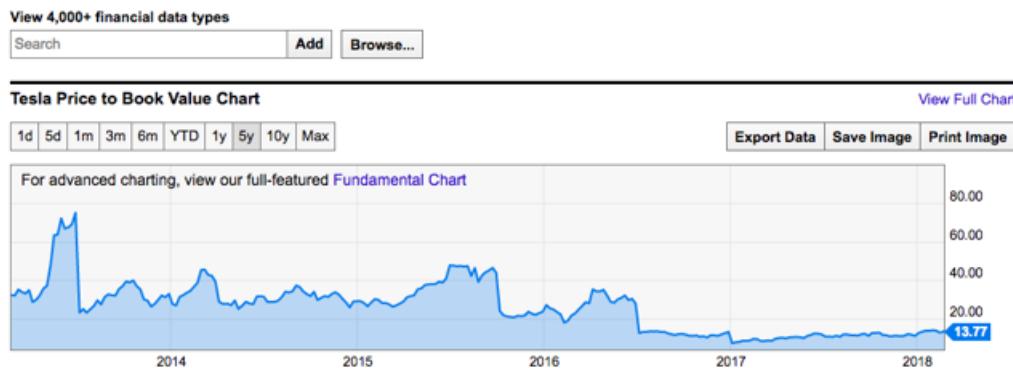
Wither Tech Stocks Post-Trump Tax Reform?

So, how do some recent market darlings trade versus book value? Below are 5-year price-to-book charts for Amazon, Tesla (TSLA), and Netflix (NFLX):

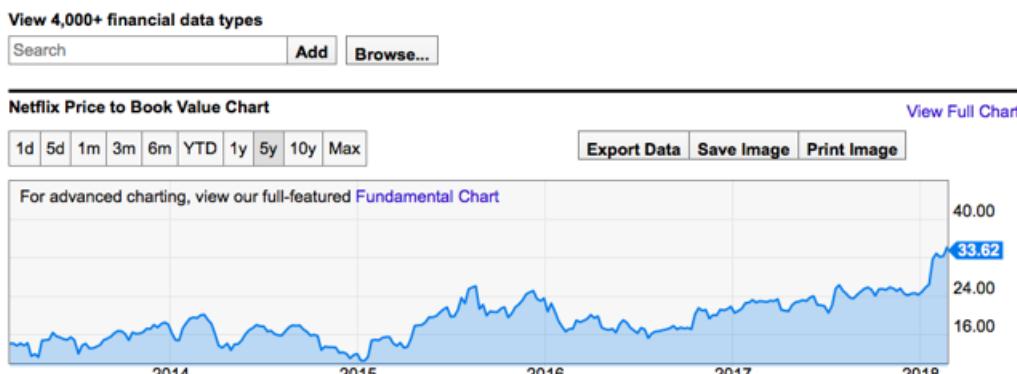
Amazon.com Price to Book Value: 25.89 for Feb. 22, 2018



Tesla Price to Book Value: 13.76 for Feb. 22, 2018



Netflix Price to Book Value: 33.62 for Feb. 22, 2018



We find that Amazon trades at 26X, Tesla trades at 14X, and Netflix trades at 34X book, or an average for the three of about 25X book value. This represents a multiple of over 7X the overall market's (already historically high) P/B ratio. Moreover, none of these companies pays a dividend, so they receive maximum credit from investors for the fact

that all cash (including cash sourced from incremental debt) gets reinvested in the underlying business at book value. As interest rates have relentlessly fallen during the current 9-year bull market, investors have logically marked up the equity valuations of these three to higher and higher multiples of book value. If Buffett is correct, however, these will be the very companies whose valuations contract the most when inflation and interest rates rise, as should occur in an era of higher and higher government spending and deficits.

Moreover, the likes of Amazon, Tesla, and Netflix are also the type of companies helped the least by the Trump tax cuts. For one thing, they are either unprofitable or marginally profitable, so cutting their tax rate yields minimal to no gain for them in terms of immediate earnings and cash flow. Second, the value of any deferred tax assets on their balance sheets is lower, since going forward, the amount of taxes they will be able to offset with their DTAs will be lower under a 21% tax regime than a 35% tax regime (for example, Tesla had \$2.4 billion in DTAs on its balance sheet as of the end of 2017). Finally, the current market valuation for all three companies is largely based on investors' expectations of massive profits many years down the line (under typical sell-side analyst DCF analyses, near-term profits for these companies remains subdued to nonexistent and then explodes to the upside in the out years, similar to a hockey stick effect). Yet if the tax cuts lead to higher interest rates, the present value of these out-year profits will necessarily be less, as the discount factor applied to them will be higher. Thus, we find that the Trump tax cut has a triple negative effect on companies such as Amazon, Tesla, and Netflix.

Indeed, media outlets noted the initial negative tech investor reaction to the tax bill:

Amid tax-bill euphoria, one big part of the stock market is getting left behind: Tech

- Tech is the one sector that may not make out better with corporate tax reform, and it has been lagging the market this week as tax legislation seems to be making progress.
- Foreign operations of U.S. companies have been hoarding cash overseas so as not to pay U.S. taxes, but congressional tax plans would encourage companies to repatriate that cash with a low one-time tax break as they move to a new territorial tax system.
- Goldman Sachs analysts cut their weighting on the S&P tech sector to neutral recently, noting it faces headwinds from tax legislation.

Patti Domm | @pattidomm

Published 1:55 PM ET Fri, 1 Dec 2017 | Updated 3:28 PM ET Mon, 4 Dec 2017

Of course, certain highly profitable large-cap tech players such as Apple (AAPL), Google (GOOG) (NASDAQ:GOOGL), and Microsoft (MSFT) should benefit from the Trump tax plan, as their cash taxes should decrease significantly going forward. In addition, they will be able to repatriate billions of overseas profits at favorable rates. Thus, not all tech companies should be put into the same boat.

Conclusion

The passage of the Trump tax plan looks to be a major negative for companies like Amazon, Tesla, and Netflix. Not only do they fail to benefit immediately from the lower corporate tax rate (since they generate minimal to no profits), the present value of their future profits is less if higher government deficits lead to higher long-term interest rates (a process which seems to be already well underway). Not only that, but if Warren Buffett's analysis is to be believed, higher rates will necessarily cause price-to-book multiples to contract market-wide from the current (historically high) 3.4X level. As a group Amazon, Tesla, and Netflix trade at a massive 7X the overall market's P/B ratio, indicating that the downside risk from such a contraction could be significant. To be sure, the valuation of any individual company depends on many variables, including the quality of management and products, revenue versus expense growth, market share dynamics, etc. However, the truly scary thing for Amazon, Tesla, and Netflix shareholders about the Trump tax bill is that the negative knock-on effects for these companies, as outlined in this article, are completely outside their and their company managements' collective control.

Disclosure: I am/we are long GM, AAPL.

I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it. I have no business relationship with any company whose stock is mentioned in this article.

Additional disclosure: We are also short TSLA and NFLX.

Comments (369)

Tokyo Picker, Contributor

I don't think this is correct for Tesla. Since their future profits are negative, a high inflation rate/discount rate makes those profits better in real terms.

24 Feb 2018, 08:35 AM

Drewstefer

Higher inflation with higher interest rates is not good if you have been through some economic cycles you would know that.

However, is inflation really going to tick up? Munchin says that rising wages will not impact inflation

<http://bit.ly/2EZoEgR>

JPM seems to agree

<https://bloom.bg/2sTofI1>

I lived through the 1980's when GICs paid 21%. If any kind of higher rates come back with inflation stocks and everything else will tank big time. Im thinking the government wont let that happen. Historically interest rates have averaged around 5%.

<https://yaho.it/2EZoFkV>

So based on averages we still have some upside on rates.

On thing is for sure with \$24.4 billion dollars in liabilities ... Tesla does not want to see higher rates. A similar story can be said for the US government.

Both Tesla and the US government borrow heavily for a better future ROFL.

But in both cases investors and taxpayers know that some day the fat lady will sing. Its just a matter of when that happens.

24 Feb 2018, 09:31 AM

Seven Corners Capital Management, Contributor

Author's reply » From Bloomberg 2/21 article:

"Despite recent increases, yields on U.S. Treasury securities provide a negative return after adjusting for taxes and inflation. Buyers of Treasuries are not investing, but rather making annual donations to the U.S. government. Historically, 10-year Treasuries have averaged about 250 basis points above inflation, which implies a 4.5 percent yield given the Fed's inflation target. So even after the sizable declines in recent weeks that pushed yields up to about 2.90 percent, bond prices are likely to drop significantly further."

<https://bloom.bg/2F4Y324>

24 Feb 2018, 09:43 AM

dinotrac

Drewstefer

>However, is inflation really going to tick up?

It's already ticked up. The real question is how far it's going to go. Not sure anybody has an answer for that one.

24 Feb 2018, 09:57 AM

Doneonbadstreet

JPM and Munchkin are not exactly objective, disinterested third parties.

24 Feb 2018, 10:51 AM

howarddork

Sarcasm alert - "not correct for Tesla. Since their future profits are negative, a high inflation rate/discount rate makes those profits better in real terms."

24 Feb 2018, 11:14 AM

garyreynolds.rdg

Some inflation is good and the uptick has enabled companies to finally increased some pricing to spur top line growth which has been an issue. Most of the cost cutting was done over the past few years and now only top line growth and productivity gains will drive increased profits. So, if we can find a new norm as to rates and reasonable inflation we may be able to thread the needle as they say and have a steady moderate growth track in our economy.

It will of course be tricky but, one can always hope.

24 Feb 2018, 12:09 PM

june1234

YTD since Trump tax cuts:

AMZN 1172 to 1500

NFLX 196 now 285

TSLA 311 to 352

Thats some serious bad news all right

24 Feb 2018, 12:37 PM

Cal Barnes

This is why I moved most of my shorter term holdings into TIPS, equities are too volatile for under 3 year horizon, but I can't foresee a 3 year period where bonds are a good return, and cash will lose value from inflation.

24 Feb 2018, 01:13 PM

Amos S

Newb alert - what's "TIPS"? Thanks

24 Feb 2018, 03:47 PM

Amos S

Newb alert - what's "TIPS". I tried to look it up but it's too common word.

24 Feb 2018, 03:52 PM

Lord Baltimore, Contributor

Amos, in case you haven't located it here is the definition of TIPS from the US Treasury: "Treasury Inflation-Protected Securities, or TIPS, provide protection against inflation. The principal of a TIPS increases with inflation and decreases with deflation, as measured by the Consumer Price Index. When a TIPS matures, you are paid the adjusted principal or original principal, whichever is greater."

24 Feb 2018, 04:11 PM

cpo111

Drewstefer-

Your comment to Tokyo Picker was very condescending,

"if you have been through some economic cycles you would know that."

His (or hers) profile indicates that he has the professional and personal background (and a few grey hairs) to make the statement you were referring to. I also have noticed that whenever someone cannot make a rebuttal that is convincing, they always quote other references to help support the claim that they cannot substantiate. You made 3 such links to other's opinions.

Just my opinion

24 Feb 2018, 04:46 PM

Moon Kil Woong, Contributor

The worst effect for Tesla is the higher rate they will have to pay on their growing debt. Which makes us realize, the losers to higher rates regardless of inflation are those who borrow heavily. People should look at the balance sheet and cash flow more carefully now.

24 Feb 2018, 08:04 PM

Charles Agbakwu

If top line or bottom line growth is merely the result of inflation then its just an illusion. More dollars moving through the system doesn't equal more wealth creation.

24 Feb 2018, 08:25 PM

Terry8499

CNN report, I stopped reading right there!!!

25 Feb 2018, 11:00 AM

Legacy Legends, LLC

AMZN

NFLX

TSLA

Are all winners for decades to come!

25 Feb 2018, 11:31 AM

Windsun33

Yeah, got to close up the mind and not allow any outside information in unless it is from Fox.

25 Feb 2018, 01:14 PM

Levis Kochin, Contributor

Bloomberg is assuming that equilibrium real rates have not changed. But the evidence is that they have. One force is the decline in population growth rates. The lower the growth rate the lower the real interest rate. The world is no longer reproducing at the same rate. Over half the countries listed in the CIA World Fact Book (including China, US, Russia, Brazil and Iran are no longer producing enough babies to reproduce. Even the countries that are reproducing are seldom doing it with the same enthusiasm. Indonesia is on course to increase 1% per GENERATION at its current Gross Reproduction Rate.

<http://bit.ly/2sPjaR2>

25 Feb 2018, 03:41 PM

kemalefe1

This whole article is based on a mental gymnastic written by Warren Buffet over 40 years ago. A simple calculation shows that it had no relevance with the reality.

Since 1980, dow went up from around 2,000 to 25,000. This represents an average of 7% appreciation per year in stock prices, far ahead of the average inflation, and certainly better than bond yields during the same period. This period has seen several market crashes, and still the average stock earned better than bonds. If you bought growth stocks like MSFT, INTC, AMAT, AMZN, you would do far far better even. If you bought "value" stocks like GM (like you say you hold now), you would have lost most of your initial capital to inflation.

25 Feb 2018, 04:12 PM

Doneonbadstreet

Kemalefe-What was the rate of return of the Dow during that period after taking into account actual inflation?

25 Feb 2018, 05:22 PM

Seven Corners Capital Management, Contributor

Author's reply » Goldman Says Stocks May Plunge 25% If 10-Year Yield Hits 4.5%

February 25, 2018, 9:53 AM EST

'Stress test' outcome could sink S&P 500 to 2,155-2,298 range

Measures outlier move vs Goldman's 3.25% year-end scenario

If the 10-year U.S. Treasury yield hits 4.5 percent by year-end, the economy would probably muddle through -- stocks, not so much, according to Goldman Sachs Group Inc.

Goldman's base-case scenario calls for a 10-year yield of 3.25 percent by the end of 2018, though a "stress test" out to 4.5 percent indicates such a move would cause stocks to tumble, economist Daan Struyven wrote in a note Saturday. He also said the economy would probably suffer a sharp slowdown but not a recession.

"A rise in rates to 4.5 percent by year-end would cause a 20 percent to 25 percent decline in equity prices," the note said.

<https://bloom.bg/2F6UR5K>

25 Feb 2018, 11:24 PM

ssfranny

Those are set of correct big time only reason they haven't is Traders can't rotate into anything

26 Feb 2018, 10:26 AM

TomasViewPoint

Worthless prediction. "IF x happens then y happens"

If rates hit 4.5% on the 10 year and inflation is lower than 4.5% and earnings are accelerating I don't see the stock market going down.

I don't need a big building in Manhattan to make that prediction.

26 Feb 2018, 11:49 AM

kemalefe1

Doneonbadstreet:

First a correction: I just checked and found that at the start of 1980 dow was actually around 600. Since my calculation was based on dow 2000, a value of dow 600 actually strengthens my argument.

Coming to your question about inflation, according to the government web site <http://bit.ly/2zWg7fP>, buying power of \$100 in 1980 was equal to the buying power of \$318.60 today. This means, my original calculation of average 7% profit per year is valid on an inflation-adjusted basis.

26 Feb 2018, 04:37 PM

Doneonbadstreet

Kemalefe1-Do you feel the government is an objective accurate party, with regard to stating inflation on a national basis, and in the area you reside? Have you looked at alternative independent calculations of inflation?

26 Feb 2018, 06:31 PM

cmadmoney

AMEN

26 Feb 2018, 07:47 PM

kevin75081

Yes the demographic shift is the underlying long-term macro trend which is most predictable and certain. With fewer new 18 and 22 year old economic participants there is decreased demand growth for all kinds of products and services. The remaining growth is concentrated in new products, new services, and higher end. The less capital needed for new participants frees up a lot of excess capital looking for returns. In this backdrop, it seems investors have little alternative but chase equities ever higher.

27 Feb 2018, 11:10 AM

kemalefe1

"Do you feel the government is an objective accurate party"

That is irrelevant. Government reports the inflation, and the same government controls the bond yields. If they are wrong about inflation and screw the bond holder with unfair bond yields, this does not make bonds better than stocks, much less growth stocks.

27 Feb 2018, 12:20 PM

Doneonbadstreet

kemalefe1,

So if actual inflation is irrelevant to you, I can't imagine there is any reason you are estimating any financial outcome. BTW, did I say either stocks or bonds were better?

27 Feb 2018, 12:39 PM

kemalefe1

Doneonbadstreet:

"... if actual inflation is irrelevant to you ..."

I never said it is irrelevant to my argument. I said it is irrelevant to your pointed question.

03 Mar 2018, 11:49 AM

Doneonbadstreet

Kemalefe,

Our government does not have total control over interest rates. The Fed, composed of regional federal reserve banks, where their stock ownership is held by private banks. Buyers of our government bonds may be sovereign governments, businesses, individuals, local governments, trusts, etc. Buyer decision making has a role in setting the prices, and they can choose to buy, or not, and at a particular price.

04 Mar 2018, 12:16 PM

Tokyo Picker, Contributor

Also, very few of the \$2.4 bn of Tesla's DTAs are on its balance sheet, as explained here: <https://seekingalpha.c...>

24 Feb 2018, 08:38 AM

Seven Corners Capital Management, Contributor

Author's reply » Yes, 70% or so of the DTAs are offset by a valuation allowance. That's b/c the accounting rules state that you have to do that if you have 3+ consecutive loss years. But the point is the DTAs (if they were ever to be used) are now worth less than they would have been under a 35% tax regime.

24 Feb 2018, 09:20 AM

TeeBone

There is no accounting rule that requires such a DTA if you have 3 years of losses. The standard is more likely than not can they utilize the DTA.!Being they can't turn a profit, they can't realize the DTA.

24 Feb 2018, 09:28 AM

kcdowntown

The DTA valuation allowance is also a reflection of future expected earnings. Tesla has not been able to convince themselves or their auditors that they will ever benefit in the future from previous losses. The market has been rewarding the very companies that will benefit the least from tax reform like Tesla.

Apple's net cash exceeds its book value and theoretically they could take their book value to zero with their buybacks and still generate future cash flows and earnings to maintain a very low book value. Tesla meanwhile will continue with its capital raises , bloated stock based compensation and losses while management gets paid nicely at the expense of shareholders.

24 Feb 2018, 09:38 AM

Seven Corners Capital Management, Contributor

Author's reply » 'There is no accounting rule that requires such a DTA if you have 3 years of losses'

"While not a bright line, cumulative pretax losses for the most recent 3 years is a common starting point when evaluating negative evidence. The thought here is that three years is typically long enough to not be overly influenced by one-time events, yet recent enough to support projections of future results."

<https://pwc.to/2F4ZLAw>

24 Feb 2018, 09:45 AM

Harpfellow

As someone who spent most of his lame-ass career writing 10k tax footnotes, I couldn't let this slide.

But Tesla's U.S. Deferred's are fully valued due to their NOL's, so NO impact from Trump tax cuts.

They still have a material foreign tax liability, so perhaps that's where the confusion is coming from.

Anyway, not trying to step on toes, just trying to provide a little clarity on the subject.

From their 12/31/17 footnote:

"We are required to recognize the effect of the tax law changes in the period of enactment, such as re-measuring our U.S. deferred tax assets and liabilities as well as reassessing the net realizability of our deferred tax assets and liabilities. The Tax Act did not give rise to any material impact on the consolidated balance sheets and consolidated statements of operations due to our historical worldwide loss position and the full valuation allowance on our net U.S. deferred tax assets"

24 Feb 2018, 06:10 PM

Legacy Legends, LLC

"Tesla meanwhile will continue with its capital raises , bloated stock based compensation and losses while management gets paid nicely at the expense of shareholders."

*at the expense of shorts.

Fixed!

25 Feb 2018, 11:35 AM

kcdowntown

Legacy As hard as it is for you to believe the shorts do not provide Tesla with any capital or have any impact on its financials or operating business.

25 Feb 2018, 12:32 PM

Legacy Legends, LLC

They have market manipulation tactics! Fake financial news!

25 Feb 2018, 03:15 PM

Dansplans the Insouciant

LL LLC

But no one on the stock pumping, long side of the trade ever does anything to manipulate the stock price.....

You actually consider the examination of Tesla's horrible business results, from the 10Q's to be fake news and manipulation?

01 Mar 2018, 04:19 PM

Apple Geek

The national debt doubled in the last 8 years but inflation stayed very low. Unless the Fed screws up (always a possibility) they should keep inflation down below the 2% level, which will have minimal impact on interest rates.

This Financial Times article <http://on.ft.com/2w52C4o> points out that nobody really knows why all of the recent years' deficit spending did not cause any inflation.

Tesla's many other problems are far more significant than this concern about a possible inflation-driven spike in interest rates.

24 Feb 2018, 08:49 AM

Seven Corners Capital Management, Contributor

Author's reply » Five Fed Rate Hikes in 2018 Isn't A Crazy Idea

Economic conditions are ripe -- even overripe -- for inflation to accelerate.

February 21, 2018, 5:00 AM EST

<https://bloom.bg/2F4Y324>

24 Feb 2018, 09:30 AM

MRFORT23

My take for what it's worth is that inflation is a battleship. It doesn't show up immediately. And when it does show raising rates will take time to lower it, it won't happen immediately.

Good article. Interesting to read strategy from the 70s and apply it to today's market. In many ways investing today is vastly different. In some ways it is the same.

24 Feb 2018, 09:40 AM

aToMac

Apple Geek,

The Fed already screwed up. Inflation of the money supply has been massive. The resulting price inflation is now coming. Pressure on the dollar will cause prices to rise. Unwinding of the Fed balance sheet will cause bond prices to fall and interest rates to rise. Large budget deficits will make this worse.

Remember, Obama was only able to have huge budget deficits, because the Fed was the buyer. Now, the Fed doesn't buy and is selling, so interest rates have to go up. Simple supply and demand.

Printing money was the easy part, reversing it will prick all bubbles.

24 Feb 2018, 10:07 AM

fishfryer

The U.S. exports a lot of that deficit money. Our military is stationed around the world, that money affects wherever those personnel are stationed. As far as military equipment, that part of the spending probably doesn't affect the civilian markets that much. I'm not sure if spending a zillion dollars for a stealth bomber affects the price of a Ford Mustang.

The natural order of things is deflation, not inflation. This is the sole purpose of technology, to do more with less. Inflation is a construct of bankers as a way to steal from people.

24 Feb 2018, 10:18 AM

fishfryer

Be careful listening and referencing Bloomberg, they are notoriously wrong on some things. I remember reading an article a few years back thinking they were out of their minds for calling for rate hikes in an election year. December 2015 they wrote...

<https://bloom.bg/2sQ98iv>

"The Federal Open Market Committee unanimously voted to set the new target range for the federal funds rate at 0.25 percent to 0.5 percent, up from zero to 0.25 percent. Policy makers separately forecast an appropriate rate of 1.375 percent at the end of 2016, the same as September, implying four quarter-point increases in the target range next year, based on the median number from 17 officials."

Rate hikes occurred one full year after Bloomberg reported they would, the motives of that 'news' organization is often suspect. Also, don't be proactive with what the Fed says, just react to what they do. They jawbone constantly and if you look at guys like Bullard, his rate hike predictions are more often wrong than right, whether that is on purpose or not I can only guess, but I guess he purposely misleads us.

24 Feb 2018, 10:31 AM

justasimpleopinion

Doubling in debt did not cause higher interest rates only because most of the supply was picked up by the FED.

There was never appetite to buy the all the US risk offered at the rates below 3%.

We will see where the rates will have to go to have enough demand to cover 1 trillion USD of deficit with no FED to pick up the slack and what it does to the book multiples of companies that are only good to dream about future profits vs delivering them.

24 Feb 2018, 11:55 AM

bullbeartrader

Seven Corners, spreading fear is not a trading strategy for your short positions.

24 Feb 2018, 05:07 PM

JazzPaw

Clearly, all those deficits didn't cause inflation because the money didn't go to bidding up goods and services. We have experienced asset inflation.

In the 1970's, inflation adjustment of union wages was built in to contracts. Also, the wage proportion of the economy was higher. One factor frequently ignored is that in the 1980 time frame the baby boomers were becoming serious demanded of all kinds of goods and services, and energy prices had already increased the cost of everything.

In the last several years, demand has not increased because foreign workers keep pressure on wages, energy prices have fallen, and the high-consuming population been depressed by lower numbers, student loans, etc.

The one area of the consumer economy that has experienced inflation is in healthcare because those boomers are retiring and getting more tests, procedures, etc.

I still don't see much wage increase coming. There is still foreign competition in the labor markets. If companies increase productivity in the US, that means more freed up workers, so the pressure on wages is still not there.

24 Feb 2018, 07:17 PM

JP24

Jazz - of course there are 2 ways inflation can be triggered. The first is, as you point out, is an increase in demand assuming supply remains constant. The other way would be if supply was reduced while demand remained constant.

I'm not predicting that either one of these scenarios will play out, but I'd be more concerned with the latter than the former. The reason it's a concern is that with all of the cheap money that has been floating around, the equity markets have effectively told businesses not to worry about funding growth via actual cash flows when you can simply finance it against your equity value. The cost of capital has become a key 'input' cost into the goods and services available today. Think of it as 'the cost of capital is the new labor'. The cost of that input can rise very quickly as market interest rates rise. If that happens, supply is reduced pushing prices higher. Then the Fed steps in and raises rates to head off inflation which causes market rates to rise even more quickly. This reduces supply further and pushes prices even higher. You can see how this can feed on itself.

Again - and I stress - I'm not predicting this will play out. But it's the most likely disaster scenario that I can envision.

24 Feb 2018, 08:21 PM

JazzPaw

@JP24, it could certainly happen that way. Rising interest rates are going to put increase debt service throughout the economy. More money will be attracted to fixed income government debt and equities will be a less attractive investment.

In the US, I can see some effect on labor costs and domestic demand from immigration enforcement or a decrease in immigration. In the current environment, the downsides of immigration have gotten most of the airtime, but a smaller labor pool and lower demand will decrease growth and cause increased costs for businesses for training and possibly wages.

All told, I'm not optimistic that the economy is going to be all that good after the initial jolt provided by the tax cuts. There many forces that will drive inflation. One would need a concerted effort to increase productivity to offset these pressures. The infrastructure plan is a pipe dream so far, but a real plan of the right type could help offset other negatives.

24 Feb 2018, 08:44 PM

Some Lazy Bum

Five Fed Rate Hikes in 2018 is a crazy idea. If there are more than three hikes, this will hurt the market and make Trump "look bad." Politics will prevent more than three hikes; in an extreme situation, four hikes might occur but this is unlikely. Five hikes is a fantasy.

24 Feb 2018, 08:44 PM

WMX0102

Yes, it is.

25 Feb 2018, 10:07 AM

bullbeartrader

5 rate hikes is fear mongering from the left (in this case Bloomberg) for a market crash before the 2018 midterms. They have no platform, nothing to run on and need a change in leadership.

25 Feb 2018, 12:07 PM

Some Lazy Bum

Patrick Harker, president of the Philadelphia Fed, challenged the market's rising expectations for as many as four interest rate increases this year, saying he sees no more than two rate increases given an inflation rate that continues to undershoot the Fed's target.

"Based on the relatively strong economy, but the continued stubbornness of inflation, I've penciled in two hikes for 2018," Harker said this week.

<http://read.bi/2F4RT1S>

25 Feb 2018, 12:22 PM

bullbeartrader

Inflation stayed low because factories shut down and went offshore, remaining workers wages were not increased, we allowed anyone into the country and provided for them and we allowed a chit load of imports from China and others. Where did that get us? Double the debt to \$21 million.

Thanks to the community organizer.

25 Feb 2018, 04:18 PM

Doneonbadstreet

Bullbeartrader-If he only added 21 million to the debt, as you state, that would be the best since a surplus under Clinton?

25 Feb 2018, 05:22 PM

Lance Brofman, Contributor

Over the last decade securities prices have been supported by the massive tax-policy-induced increase in inequality that causes the excess of loanable and investable funds, and that just got a lot stronger with the new tax bill. However, factors such as monetary policy, inflation and the unemployment rate will still have significant impacts on securities prices. There are also geopolitical factors and events that can influence financial markets.

The major factor driving securities prices for many years has been the shift of the tax burden from the rich onto the middle class. As I explained in "A Depression With Benefits: The Macro Case For mREITs": <https://seekingalpha.c...>

...The primary change that has fundamentally changed the economy can be best described by Warren Buffett, CEO of Berkshire Hathaway (NYSE:BRK.A) (NYSE:BRK.B), who said, "Through the tax code, there has been class warfare waged, and my class has won," to Business Wire CEO Cathy Baron Tamraz at a luncheon in honor of the company's 50th anniversary. "It's been a rout"...

Rich people have much higher marginal propensities to save and invest than non-rich people who have higher marginal propensities to consume. The world-wide shift in tax burdens from the rich to the middle class has created a tremendous imbalance where there is a much greater supply of lendable and investable funds relative to securities to invest in or projects to lend to with high probabilities of good returns. Bitcoin and the explosion of new cryptocurrencies is only the latest manifestation of the worldwide excess of loanable and investable funds..."

<http://bit.ly/2F5s5IX>

26 Feb 2018, 12:09 AM

Lance Brofman, Contributor

"...Most investors now believe three things about the Federal Reserve, money and interest rates. They think that the Federal Reserve is artificially depressing rates below what would be a "normal" level. They believe that in the process of doing so the Federal Reserve has enormously increased the supply of money and they believe that the USA is on a fiat money system.

All three of those beliefs are incorrect. One benchmark rate that the Federal Reserve has absolute control of is the rate paid on reserves deposited at the Federal Reserve. That rate is now 150 basis points, after being zero since the inception of the Federal Reserve in 1913 until recently. If the Federal Reserve had left that rate at zero t-bill rates would now be even lower than they are now. The shortest t-bills rates would now probably negative.

Paying interest on reserves combined with the subsidy to the banks of providing free unlimited deposit insurance on non-interest bearing demand deposits is keeping t-bill rates positive. Absent those policies the rate on t-bills would be actually negative. The Chinese and others all over the world are willing to pay anything for the safety of depositing funds in the USA.

An investor who believes that interest rates are headed up may respond that the rate paid on reserves is a special case and that the vast increase in the money supply resulting from the quantitative easing must result in higher rates when the Federal Reserve reverses its course. The problem with that view is that the true effective money supply is still far below its 2007 level.

Money is what can be used to buy things. Historically money has first been specie (gold and silver coins), then fiat money which is paper

currency and checking accounts (M1) and more recently credit money. The credit money supply is what in aggregate can be bought on credit. Two hundred years ago your ability to take your friends out to dinner depended on whether or not you had enough coins (specie) in your pocket. One hundred years ago it depended on the quantity of currency in your pocket and possibly the balance in your checking account if the restaurant would take checks.

Today it is mostly your credit card that allows you to spend. We no longer have a fiat money system. Today we have a credit money system. Just because there is still some fiat money does not negate the fact that we are on a credit money system. When we were on a basically fiat money system there was still a small amount of specie in circulation. Even today a five cent piece contains about 5 cents worth of metal, but no one would claim we are still on a specie money system.

Fiat money is easy to measure; M1 was \$1.376 trillion in 2007 and is over 3 trillion now. The effective money supply is the sum of fiat money and credit money. Credit money cannot be precisely measured. However, When the person in California whose occupation was strawberry picker and who had made \$14,000 in his best year was able to get a mortgage of \$740,000 with no money down and private equity could buy a company like Clear Channel in a \$20 billion leveraged buyout, also with essentially no money down, the credit money supply was clearly much higher than today. A reasonable ballpark estimate of the credit money supply is that it was \$70 trillion in 2007 compared to \$50 trillion today.

The effective money supply is the sum of the traditional fiat money aggregates plus the credit money supply. Thus, despite the claims of many to the contrary, the effective or true money supply has fallen drastically over the last few years...."

<https://seekingalpha.c...>

26 Feb 2018, 12:12 AM

bullbeartrader

Correction, you know I meant \$21 Trillion.

26 Feb 2018, 06:18 AM

Kevin(twincities)

Lance

We would love to an updated article, like the one you posted in 2013.

26 Feb 2018, 11:57 AM

Vulpine

What you ignore, bbt, is that when said President took office, the national debt was rising at a record rate. Said President was effectively forced to take a loan, after which said debt slowed and ultimately reversed direction. The problem now is that with the reduction of both corporate and certain individual taxes, we're due to see a reversal back towards increased debt within the next year or two. For all that said President saw a record high debt, it was forced upon him by his predecessor, whose own predecessor actually saw our nation's income exceed its debt load for the first time in decades. The US now owes more in interest than it receives in annual taxes.

26 Feb 2018, 12:33 PM

Doneonbadstreet

Vulpine-Said president referred to himself as the king of debt, championed tax cuts without offsetting spending cuts, proposed a massive deficit, an infrastructure boondoggle, and threatens a trade war, so let's not pretend he has no role in an increase in interest rates, debt, spending, deficits.

You always have a choice to propose something else, or veto. Fiscal responsibility is not something the party can even talk about. Historically, conservative vs. liberal related more to spending and taxation than social issues. Can the Republican party say they have been conservative in 50 years, when it comes to spending, deficits, and debt?

26 Feb 2018, 12:54 PM

Vulpine

"Can the Republican party say they have been conservative in 50 years, when it comes to spending, deficits, and debt?"

Nope; in every case they've been the cause of more debt, not the solution. And that statement comes from a registered Republican.

27 Feb 2018, 01:06 PM

Dansplans the Insouciant

Apple Geek

Much of the lack of inflation has been the result of deflationary forces at work in many economies, balanced by inflationary forces in many western economies. The commodity bear market has placed a cap on worldwide inflationary pressures, so far.

However, it is thought that a new commodity super bull market may be developing. If this is true then fundamental inflationary forces will be baked in. When you add government mismanagement of the economy and meddling with interest rates, you have the potential for dire consequences.

01 Mar 2018, 04:21 PM

DJNJ

God this article is silly on so many levels.

1 - perhaps companies that make no profits shouldn't be in business very long. If AMZN and NFLX and TSLA are hurt, so be it. Perhaps they should try making a profit for their shareholders.

2 - Extra money in consumer pockets increases purchases

3 - Inflation is still very low by historical standards

4 - Did the first \$20 Trillion of debt bother the author? Or does only the last 1.5 Trillion an issue?

5 - The Government ha received record revenues - perhaps the issue is spending.

6 - Speaking of spending - until we get serious about entitlement reform - everything else is moot.

24 Feb 2018, 08:51 AM

JorBru

Agreed on all points DJNJ.

24 Feb 2018, 09:08 AM

miriam ledwith

DJNJ: 7- As baby boomers & boomers age out, the taxes on their required minimal distributions from 401 K plans will flood into Treasury.

24 Feb 2018, 09:21 AM

Seven Corners Capital Management, Contributor

Author's reply » DJNJ - the article is not a political argument for or against deficits. It's just about what happens to TSLA, NFLX and AMZN shares in an inflationary environment. Yes, inflation is low by historical standards, but that doesn't mean it's not about to go higher. Look at what happened from 1964 to 1981 - nobody in 1964 saw massive inflation coming either.

24 Feb 2018, 09:23 AM

peterinjapan

Interesting idea. We'll see...

24 Feb 2018, 09:29 AM

Monel

How can economic growth hurt Amazon and Netflix?? In the big picture the above two will prosper with increasing wages and economic prosperity.

24 Feb 2018, 09:31 AM

Doneonbadstreet

Miriam-But since they will not be working, that loss in revenue will be far greater than the revenue from the average distribution.

24 Feb 2018, 10:47 AM

Hardog

Excellent points and spending by Guvs are key.

24 Feb 2018, 12:01 PM

TomasViewPoint

Agreed this article is a distraction and all the Buffet and Bloomberg references are noise.

Economic policy should not be crafted to encourage mis-allocation of capital. That is not sound policy. If companies are negatively impacted when marginal rates decrease then something is wrong with those companies. Furthermore using conventional economic wisdom from many decades ago in an industrial economy when we now live in a services economy is an abuse of logic.

If we increase the federal debt by only \$1.4 Trillion in the next 10 years that is a massive success as compared to the last 8 years. Inflation will not be driven by this small increase in our debt.

Netflix and Amazon will still find ways to allocate capital and move forward. Tesla is a black box and is in a heavy capital industry which is extremely risky especially if a recession hits. A recession only helps Netflix and Amazon.

24 Feb 2018, 12:40 PM

AuK

How much taxes would you pay on a 50k yearly distribution - how many boomers would have this kind of money in their 401Ks?

24 Feb 2018, 12:47 PM

Doneonbadstreet

TomasViewPoint-1.4 trillion is just the tax bill. Add the budget, wall, infrastructure, trade agreements, higher interest payments, etc., on top of the 20 trillion on the books, and think about the impact.

24 Feb 2018, 01:45 PM

AlbanyJacket

Concerned about government spending and debt? OK, start with the waste for things like grants to study why lesbians are fat. Foreign aid to noted allies like Middle East dictators of all stripes. Giving food stamps to illegal immigrants etc. The US government should try to have the interests of citizens and tax payers first which is something previous administrations were unwilling to do.

24 Feb 2018, 01:46 PM

Some dude with an engineering degree

7- Every dollar in circulation is debt.

24 Feb 2018, 01:53 PM

TomasViewPoint

Doneonbadstreet - The wall is chump change over ten years. Higher interest rates could be a problem. What's the quantification of trade agreements?

Again, even if we increase the debt load by \$2-\$4 Trillion in the next 10 years that's a dramatic improvement over the last 8 especially if the economy grows.

24 Feb 2018, 02:02 PM

heroklitus

Miriam Ledwith: When they die, the cost basis adjusts. Tax flood may prove to be a trickle. No matter though since the US is monetarily sovereign so taxes do not fund spending for the federal government.

24 Feb 2018, 02:50 PM

BertPielz

Yes, but beware if you gift anyone from a traditional IRA. That's income that can lead to higher taxes and a docking of your social security. The formula even uses income exempt from federal taxes! That's great policy! They spend billions on immigrants who will add to the debt ,especially on any economic downturn ,as they push granny over the cliff. Oh, and didn't they steal billions from the trust fund over the last few decades?

24 Feb 2018, 03:06 PM

ea1122

China's Geely makes \$9 billion Daimler bet against tech 'invaders'

REUTERS 11:47 AM ET 2/24/2018

By Norihiko Shirouzu and Edward Taylor

BEIJING/FRANKFURT (Reuters) - Chinese carmaker Geely [GEELY.UL] has built up an almost 10 percent stake in Daimler in a \$9 billion bet by its chairman that he can access the Mercedes-Benz owner's technology in the growing battle for the future of automotives.

The purchase by Li Shufu, Geely's founder and main owner, means China's largest privately-owned automaker is now the biggest shareholder in Germany's Daimler.

Geely said on Saturday there were no plans "for the time being" to raise the stake further. Instead, it will seek to forge an alliance with Daimler, which is developing electric and self-driving vehicles, to respond to the challenge from new competitors such as Tesla , Google and Uber.

"No current car industry player is likely to win this battle against the invaders from outside without friends. To achieve and assert technological leadership, one has to adapt a new way of thinking in terms of sharing and combining strength. My investment in Daimler reflects this vision," Li said.

"Daimler is pleased to announce that with Li Shufu it could win another long-term orientated shareholder, which is convinced by Daimler's innovation strength, strategy and future potential," the German company said in a statement.

24 Feb 2018, 03:08 PM

BertPielz

Don...but someone will be hired for the boomer's job and will be sending tax to Uncle Sam. The boomer retirements IMHO are what is keeping the unemployment rate low despite bringing in over a million (legal) immigrants annually, half of whom go on the public dole soon after they arrive.

24 Feb 2018, 03:17 PM

Doneonbadstreet

Albany-Tallied that up. Glad to see your priorities.

24 Feb 2018, 03:54 PM

48358855

Agreed! TSLA holders should not be spending time listening to advice around diminishing tax loss recovery. Be more concerned about the impact of loss of EV tax incentives for buyers in the showroom. With the deficit situation, the government will be turning over rocks looking for spending reduction and these EV incentives are a soft target especially where retail prices are targeting well-heeled customers.

24 Feb 2018, 05:51 PM

js204

Albany: You pick at slivers in your fingers while ignoring those arrows and spears in your back. While there are always stupid expenditures (remember the \$600 toilet seat?), the forest remains invisible because of all those trees. Right now the U.S. military is involved in over seventy conflicts worldwide. And it costs over \$235 billion per year just to maintain the 5th Fleet in the Persian Gulf. Why do we have to commit more money to a military that is already larger than the next seven largest militaries combined? Want to reduce government spending and debt? Start with the military and its vendors/contractors.

24 Feb 2018, 06:46 PM

Doneonbadstreet

Tomas-Another 2-4 trillion is not an improvement, especially if it causes the interest rate on the remaining 20 trillion to increase.

25 Feb 2018, 02:26 AM

Doneonbadstreet

Bert-What primarily keeps the unemployment rate low is not counting most unemployed.

25 Feb 2018, 02:26 AM

DJNJ

Remember the old adage that goes something like this - "You can have open borders or you can have a generous welfare system, but you can't have both".

25 Feb 2018, 08:45 AM

WMX0102

Bingo! The military accounts for about 50 percent of our non-discretionary budget. That's way too much!

25 Feb 2018, 10:08 AM

YouGottaBeJoking

Maybe a better one is you can shut off or reduce immigration in a country with an aging population or you can let them in and grow your economy so you can support all the aging population.

25 Feb 2018, 10:49 AM

MAYHAWK

The author of this mess doesn't seem to realize that \$1.4 trillion in debt is what the Great "O" did in a year and a half. Didn't seem to bother the author then. Bias much?

25 Feb 2018, 11:58 AM

Doneonbadstreet

Mayhawk-Your objectivity is duly noted, based on your prior comments. What some have missed is that the 1.4 trillion, is heaped upon the trillion plus additional in the new budget, the cost of an increase in rates on the existing 20 trillion, an infrastructure bill, etc. In one year what has already been proposed may be a 20% increase in the National debt. There is no constituency for a balanced budget. Neither party supports it when they are in power because they are unable to reward their supporters. We have a flawed, officially corrupt political system.

25 Feb 2018, 12:41 PM

MAYHAWK

Don,

Based upon your comments, your bias is noted as well. I notice that you don't address my actual point but dissemble. Typical.

25 Feb 2018, 01:05 PM

Doneonbadstreet

Bert-Ant the new hire will make far less than the retiree, and the average IRA or 401k distribution at 65 is not as much as you might think.

25 Feb 2018, 01:33 PM

Doneonbadstreet

Mayhawk-I directly responded to your point by pointing out the context of the 1.4 trillion Trump got passed, as being a fraction of additional debt he has proposed.

25 Feb 2018, 01:33 PM

Doneonbadstreet

I hope there are not too many people here that think they are objective. Is the term criminal attorney an oxymoron or a double negative?

25 Feb 2018, 01:36 PM

TomasViewPoint

@Don How do you measure improvement?

25 Feb 2018, 01:40 PM

Doneonbadstreet

Tomas-A improvement in the debt and deficit would be to enact less of either, preferably both.

25 Feb 2018, 01:48 PM

PTR1234

Thomas - That \$1.4 trillion deficit is not total debt added over 10 years. It is the amount each fiscal year that will have to be borrowed to cover the shortfall between revenues and spending for just that ONE year. The debt added over the next 10 years (12 to 15 trillion) would far exceed what has been added over the last 10 years. Not saying it would be any better under the other side just wanted to point out the difference between a yearly deficit over 10 years as opposed to total debt over 10 years. If total debt was projected to increase by \$1.4 trillion over 10 years debt hawks would be dancing in the streets screaming we've won, we've won.

25 Feb 2018, 01:53 PM

PTR1234

Albany- You just identified the first .005% we can save, now we just have to identify the remaining places to find the other 99.995% to save.

25 Feb 2018, 01:56 PM

TomasViewPoint

@PTR1234

Here is a 10 year projection. Do some homework.

<http://bit.ly/2F3Jprx>

25 Feb 2018, 02:02 PM

PTR1234

mayhawk - The 1.4 trillion is not total debt over the next 10 years. It is what the budget shortfall is projected to be PER fiscal year by the end of the 10 year period. There is a difference in deficit and debt. It means that we will be ADDING 1.4 trillion PER fiscal year to the TOTAL debt by 2028 as opposed the .45 trillion we will be adding this year.

25 Feb 2018, 02:05 PM

MacAfrican

tough one : maybe they are trying to look like you?

25 Feb 2018, 02:19 PM

PendragonY, Contributor

"Thomas - That \$1.4 trillion deficit is not total debt added over 10 years. It is the amount each fiscal year that will have to be borrowed to cover the shortfall between revenues and spending for just that ONE year. "

Um, no. Its an estimate of how much of a short fall will happen total over the span of 10 years.

25 Feb 2018, 03:06 PM

priapnoir@yahoo.com

TomasViewPoint...

The increase in Federal Debt is not !.4 Trillion over the next 10 years as you put it, but approx 8 times that amount.

The federal debt is projected to increase from 19.5 Trillion dollars in 2016 to 30 Trillion Dollars in 2027.

The 1.4 Trillion dollars is the estimated shortfall in revenues at approx 150 Billion dollars/year projected over the next 10 years due to the Corporate Tax cuts (long overdue) and the temporary personal tax cuts, which are set to expire in 2025.

Link below

<http://bit.ly/2sQLhPN>

25 Feb 2018, 03:23 PM

bullbeartrader

Those debt calculations are based on no GDP growth at all, sorta like the previous administration. I believe with offshore money coming back and the business climate improving those numbers will prove to be false.

25 Feb 2018, 03:47 PM

TomasViewPoint

@priapnoir

Yes and I apologize for not defining my terms. I was only talking about the recent tax cuts and job bills.

A 30 Trillion debt load is concerning although I haven't looked lately at how much of that is the Boomers going through retirement and sucking up resources.

At some point there will be painful decisions to be made which for Americans is really tough. We can't seem to have a civil conversation about anything.

25 Feb 2018, 07:34 PM

priapnoir@yahoo.com

@TomasViewPoint. No problem. No need for apology. And you are right that one of the first casualty in a chat board is civil discourse. Many see things only through partisan glasses and a reasoned discourse is practically impossible. But I enjoy reading different viewpoints. I am a recent retiree from a major Multinational Corporation after having served 38 years as an Executive and have always been a number's guy.

I used to pop a blood vessel whenever sales presentations were made on new products using overoptimistic hockey stick growth projections.

I would insist on Best Case, Base case and Worst Case projections and a sensitivity analysis on the numbers.

I have been looking at the non-partisan CBO projections for the Deficits and the National Debt, from 2017- 2027, [which arrived at its National Debt projections, by assuming a modest yearly growth rate in GDP slightly above 2.0% in its estimate of a increase of the National Debt from 20 Trillion to 30 Trillion]

Several questions come my mind:

1. What would the reduction in the growth of the national debt be on the National Debt projections if the GDP growth rate were to increase from 2 to say 3% year over year over the 10 year period?
2. What would the impact be on the debt service load if the interest rate that the Govt has to pay on its increased debt were to increase by 100 basis points?
3. What would be impact be if there were to be a downturn or contraction in the US economy at any period of time in the next 10 years?

Now the Reduction in the Corporate tax rate to 21% is a welcome step, but that only brings the US Corporate tax rate on a par with many of the industrialized countries- that are our competitors. I can tell you that the high US tax rate was just one of the many factors that drove corporate decisions to invest either within the US or offshore. Other factors such as labor costs, proximity to overseas markets etc. etc, presence or absence of competition drove corporate decision making. Also, we have a large defense outlays something that our allies and competitors simply do not have. Anyway, it will be an interesting decade and one should hope for the best, while at the same time being financially prepared for the worst.

Regards

25 Feb 2018, 09:44 PM

1504661

"half of whom go on the public dole"

I can assure you that isn't even remotely true. Whoever is feeding you that load of crap is manipulating you for your vote, or otherwise misleading/distracting you at your expense. Id love to know who or what source is telling you these lies.

26 Feb 2018, 10:23 AM

Doneonbadstreet

Miriam-Do the math. average Ira account balance early 60's is only about 160k, and at 70.5 when minimum distributions are required, a little over 200k. Minimum distribution is no more than 4-5% per year based on life expectancy, so maybe 8k taxable per year, plus, then there are not working, so no revenue there, and Social Security is paying them.

26 Feb 2018, 10:47 AM

TomasViewPoint

@priapnoir Those are excellent questions and I have been very focused on that first question especially as that is a route to alleviating a debt burden without putting the population through poverty. Britain found themselves in serious debt after the Napoleonic Wars and in the subsequent time period grew their way out of the debt they had accumulated. I can't remember the exact amount of debt but I thought it was 2X the size of their economy. Don't quote me on that though but it's worth checking out.

I believe it's also possible that the Boomers will be "pig in a python" from a debt load perspective so we should get some relief after that generation passes. Therefore if we look at this problem over 30 to 50 years where do we start and where do we end?

I have also thought that one of the reasons we are in such debt is because the tax code is treated as a game not a budgetary exercise. It would be much greater fiscal discipline if we can fund the federal government with a simple assumption which is that we all (corporations and individuals) pay 20% to 25% of every dollar earned in federal tax. I haven't looked at the effective tax rate it would take to balance the federal budget in a while but this would be a quick fix and it takes away all the gamesmanship and everyone is equally on the hook. This is also a very stable assumption that works well in making economic decisions.

26 Feb 2018, 12:05 PM

Vulpine

"you can shut off or reduce immigration in a country with an aging population or you can let them in and grow your economy so you can support all the aging population."

And that aging population is being literally robbed every time Social Security is tapped for any purpose OTHER than paying back the monies those people paid into the system.

26 Feb 2018, 12:35 PM

Vulpine

"The author of this mess doesn't seem to realize that \$1.4 trillion in debt is what the Great "O" did in a year and a half."

---- it would have been far, far worse if he hadn't turned it around before the end of his term.

26 Feb 2018, 12:46 PM

Basti1993

3/10/2018

Trump's Tax Plan: Bad News For Amazon, Tesla, And Netflix Shareholders - Amazon.com, Inc. (NASDAQ:AMZN) | Seeking Alpha

"Trump's Tax Plan: Bad News For Amazon, Tesla, And Netflix Shareholders"

It's not even the Tax Plan which is the problem, the problem ist that those companies are overvalued as hell.

24 Feb 2018, 09:06 AM

Seven Corners Capital Management, Contributor

Author's reply » "the problem is that those companies are overvalued as hell"

Yes, that is another problem, which has been covered ad nauseum on SA. Just trying to present another angle on these three.

24 Feb 2018, 09:24 AM

trch3737

Last week we bought a Honda Odyssey, now have two, and thanks to Amazon profits, we paid cash! I did not buy AMZN until the \$1300 range and have now doubled up! We could now buy a couple more, if needed.

24 Feb 2018, 09:38 AM

JP24

trch3737 - selling AMZN stock and paying cash for an Odyssey is exactly the right thing to do. That's not the problem. The problem arises when people finance an Odyssey based on their current equity position in AMZN (without selling). Or worse, based on what they believe that equity position will be in a year or two. That's when things become dangerous because they can unravel in a hurry.

24 Feb 2018, 11:50 PM

dvdholm

Stupid article

24 Feb 2018, 09:09 AM

peterinjapan

Please show us your article so we can all read it. ^^

24 Feb 2018, 09:29 AM

Jay Boy

Inflation a function of the Corporate taxes going from 35-21%? More Anti Trump Mania.

It's the increase in entitlements to a point they dominate the budget, get rid of them!!! They are State functions not Federal.

24 Feb 2018, 09:11 AM

peterinjapan

Inflation is a function of too many dollars chasing too few goods. Flooring the accelerator during good economic times probably is bad, as it might cause things to heat up, meaning high inflation, meaning a Fed that has to tamp it down with 6-7% interest rates. Which would kill a lot of industries.

24 Feb 2018, 09:34 AM

2bears

peterinjapan - Thank you, finally someone who stated the definition of what causes inflation.

24 Feb 2018, 10:34 AM

DJNJ

There won't be any entitlements unless there is reform.

24 Feb 2018, 11:05 AM

Windsun33

I don't think you understand how inflation works or the root causes of it. Continually putting a political spin on things totally fails to address the underlying issues. You take every bit of bad news as being "anti-Trump" instead of actually looking at the facts or data.

24 Feb 2018, 11:22 AM

steyoun

@Doobanator- Exactly I hate how the people, who want to steal for SS and Medicare to pay for tax cuts, use the word "entitlements". I have been paying into them, through payroll taxes, all my adult life and now 5 years out from retirement...

24 Feb 2018, 11:33 AM

dinotrac

steyoun

>>use the word "entitlements".

And some of those people were the same ones who happily took the surplus payments from our younger days and spent it on shiny military boondoggles making themselves stinking rich and now complaining that we have the audacity to want decent retirements.

Never mind that they paid a vanishing small portion of their earnings while we were asked to shoulder the load for lower income people to the point of receiving 1/6 the marginal return on our pay-in relative to low income workers. I don't begrudge the low-income workers for that, btw, so much as the "special" rich folks who were too privileged to do what we were asked to do.

24 Feb 2018, 12:55 PM

rmaricle

Jay,

Good luck with that. They couldn't get rid of Obamacare, which hasn't completely kicked in yet. What makes anyone think they can repeal Social Security?

24 Feb 2018, 12:55 PM

BertPiel

DJNJ That reform has already started . They have already upped the retirement age (despite lower longevity among boomer generation) and whacked medicare recipients if their income increases even slightly in some cases.

24 Feb 2018, 03:28 PM

JazzPaw

@steyoun, You will note that all of this talk of "entitlements" when referring to Social Security and Medicare ignores where the accumulated debt has come from.

The inconvenient fact in all of this discussion is that the only part of the government that is self-funding, and has been loaning money to the rest of the government, are those evil entitlements. The rest of the government has borrowed the Social Security trust fund money for decades. Those who want more tax cuts would like not to pay back that trust fund money.

If the rest of the federal government had a fraction of the fiscal discipline of the Social Security system, we'd be a very low debt nation. Withholding taxes have been reduced so the Social Security system could fund government with regressive taxation.

24 Feb 2018, 08:57 PM

rmkiefer

<<What makes anyone think they can repeal Social Security? >>

I'm always puzzled when I read that Social Security is a government entitlement. People like me have paid into it for 30, 40 or even 50 years. Considering the time value of money, that's a lot of dough! And what if that money was invested in stocks and bonds? Instead it was a no interest loan to the government.

24 Feb 2018, 09:39 PM

GMWOO59

We all like to think that we have paid our fair share and that we deserve the benefits that we receive or will come due. That may be true with regards to Social Security income but when it comes to the Medicare that we all expect to receive, we have woefully underpaid because of runaway medical inflation. That is the entitlement that has to be reformed but as long as reformers are demonized as throwing Grandma off the cliff it is hard to have a productive conversation. Hard choices need to be made, do we spend \$700,000 on a 77 year old for cancer treatment that will only provide a 5% chance of a cure and on average extend life by only six months? As long as we are spending someone else's money rational decisions are hard to come by.

25 Feb 2018, 10:30 AM

Jay Boy

"Entitlements" a shorter way of saying "buying Democrat votes."

04 Mar 2018, 09:51 AM

Jay Boy

Right, good luck reducing government supplement spending for underfunded entitlements, they go up to keep the 70-80 year old vote,(one of the largest voter expansions). Media pounds away at oldster's eating cat food and dying on the street because of bad old government cutting entitlements they "contributed to."

"Contributed to," means:"I put in 50k I ought to be able to spend 280k for my operation."

Self perpetuating swamp.

04 Mar 2018, 10:15 AM

r9vwyatt

I'm happy to take the risk and invest for higher future earnings growth

24 Feb 2018, 09:24 AM

peterinjapan

Or do "both," invest, but invest less. Something I try to do.

24 Feb 2018, 09:34 AM

trch3737

I agree with your post but would offer this on number 6. The politicians wrongfully and automatically lump SS and Medicare into "entitlements." I worked until 77 years and paid into BOTH! But, the extremely intelligent DC creatures confiscated and spent every penny! Of course their own largess cannot ever be threatened by the idiot masses!

24 Feb 2018, 09:25 AM

YourHuckleberry

They consider SS and Medicare entitlements because they already spent the money you paid in long ago. They literally turned them into Ponzi schemes in the mid 1980's and now require new in-flows to pay out people like you now. And seeing as people live longer than when the programs were setup, many people actually take out more than they ever put in as well. I'm 41 and I don't expect to see a nickel. I consider the money I put in a donation. Sad but true.

24 Feb 2018, 09:59 AM

insaneinthemembrane

If Generation X and onwards have low savings rates, and high debts from student loans, etc., and never get to see a penny of Social Security, it does not bode well for future political stability. However, if technological progress advances such as cheap labor from robots,

perhaps societal stability will be preserved via payments in kind.

24 Feb 2018, 10:25 AM

Paul Wagner, Contributor

trch3737...you paid a tax. Paying the tax "entitled you". Don't complain. Some taxes entitle you to something, some don't. You pay income tax but you're not entitled to ride on Air Force One.

24 Feb 2018, 10:42 AM

dinotrac

insaneinthemembrane:

>>it does not bode well for future political stability

No it does not. Almost criminal what we have done to our young people.

24 Feb 2018, 10:43 AM

DrRoberts

Agree you are entitled to SS and M/C

What is NOT entitled is medicaid and welfare for abled bodied young people

!

24 Feb 2018, 10:49 AM

DJNJ

They are entitlements - no need to sugar coat it. We need to lift the cap on the associated taxes and raise the retirement age. No one of either party is suggesting hurting people over 55. There are other entitlements that are being abused into oblivion. Including Disability and Medicaid.

24 Feb 2018, 11:10 AM

GMWOO59

It's true that SS money was not set aside for future SS but in the meantime we all received much more in government services than we paid for(in theory). Imagine if the US government had been required to maintain a balanced budget, how much higher would taxes have been during your lifetime? What government services would have been eliminated? How much stronger would our economy be? I would like to see a study of states with balanced budget amendments versus high debt states, compare growth, quality of life, etc.

25 Feb 2018, 10:38 AM

gary s t

Perhaps our government could actually do away with the tax loop holes that allow amazon and others to not pay any federal income tax. Fox News discussed this on tv yesterday. Seems know one is talking about this.

28 Feb 2018, 09:24 AM

pjkbrit

Great article! These are the macro arguments that will take time to roil the valuations of these no/low profit names, but this IS economics 101 and everyone invested in these names will wonder what happened and why the narrative changed! THIS article tells you why!
(Economics grad).

24 Feb 2018, 09:26 AM

grc222

Is Amazon Eating Inflation? \$AMZNhttps://seekingal...

24 Feb 2018, 09:31 AM

grc222

Is Amazon Eating Inflation? \$AMZNhttps://seekingalpha.com/article/4150289-trumps-tax-plan-bad-news-amazon-tesla-netflix-shareholders... Click on this recent SA article, which explains why inflation will remain low...precisely because of Amazon.

24 Feb 2018, 09:29 AM

Seven Corners Capital Management, Contributor

Author's reply » Pretty sure AMZN will not cause low inflation over the long term. Definitely has had some influence in retail though recently.

24 Feb 2018, 09:49 AM

2bears

Compare prices, Amazon is not cheaper. Just did major remodel, nothing on Amazon was any cheaper.

24 Feb 2018, 10:42 AM

Spooze

You my friend are correct. I spend wisely and always look for a deal or a better deal. I think there's some sort of affliction that affects Amazon loyalist. At least 90% of the time a simple cross check on eBay renders a better deal than Amazon. And yes that is factoring in shipping. Free shipping is more the norm now on many ecommerce sites. Throw in no sales tax on eBay and there's your best deal.

24 Feb 2018, 11:53 AM

WMX0102

Most people, especially younger people, don't care about Ebay. Plus, does it deliver in 1-2 hours? No.

25 Feb 2018, 10:10 AM

Spooze

I don't care about who uses eBay or any other ecommerce outlet. I'm stating a fact about Amazon's pricing. There's many of the exact same sellers on eBay but yet it cost less to make the purchase on eBay. Shipping is expedient products are identical. But if you choose to pay more so the box has an Amazon sticker on it knock yourself out. What the hell do I care.

25 Feb 2018, 11:37 AM

dr. Hyde

I misread average P/B as a P/E and for a second those valuations seemed reasonable.

24 Feb 2018, 09:29 AM

peterinjapan

Same

24 Feb 2018, 09:35 AM

jjock

Actually the amazon revolution will keep inflation at bay for years and consequently interest rates at a relatively low rates. Your thesis is flawed.

24 Feb 2018, 09:30 AM

Windsun33

That only works up to a point. You can only reduce or keep prices down to a certain point. When the retail or wholesale prices get below the cost of making the goods, something has to give. Automation will offset some effects, but not all.

24 Feb 2018, 11:27 AM

DrRoberts

<https://seekingalpha.com/article/4150289-trumps-tax-plan-bad-news-amazon-tesla-netflix-shareholders>

When interest rates are raised by the feds 0.25%, the fed is hurting itself as that is more money the fed has to pay on its 20 trillion debt only adding to the problem. As the fed prints more money to cover it they dilute the dollars value causing more inflation. Raising interest rates at this debt level adds to the economic problem of inflation.

24 Feb 2018, 09:31 AM

Wouldbe Trader

Me thinks you might be thinking about the Treasury. The Treasury borrows money (creating treasuries) and the fed borrows them (with printed money). The Treasury pays the interest on outstanding federal debt.

24 Feb 2018, 10:46 AM

JazzPaw

@DrRoberts, this is not as big a problem as it looks. The US Federal Reserve can always buy Treasury debt and collect the interest, which by law is refunded to the Treasury.

The real problem is not the debt itself, but what we do with the borrowed funds. Productive investments in infrastructure or in the skills of our citizens would make the debt worthwhile. Even military spending causes increased economic activity, although the productivity increases are not much and don't directly benefit the domestic economy. Higher economic activity offsets the accumulated debt, so the problem is not as burdensome as it first appears.

We are NOT Greece! We borrow in our own currency and can print as much as we need. If we spend the money wisely, it won't cause inflation. If we don't it will, but we won't go "bankrupt" unless we volunteer to do so.

24 Feb 2018, 09:09 PM

Vegas RN in San Jose

Wow. The authors lefty biased is so obvious. He acts as if 1.4 (all the zeros to get trillion) keeps him up at night. Where was he when Obummer DOUBLED the National in his turn at the wheels??!!

Inflation is one thing. RUNAWAY INFLATION quite another (see Jimmy Carter).... We do not have that.

We all like it when our paycheck inflated a little right? When our house value goes up right?

Chill out bro.

Obummer printed \$ faster than he played golf or pounded cigarettes. We had no inflation because most of America did not get to participate because WE HAD NO GROWTH!!!!!!

GROWTH in a GROWING economy with competition for workers produces higher wages which produces greater command for goods and services which puts pressure on basic commodities which makes prices for things go up!

Are you against a growing economy?????????????

Good grief.....

24 Feb 2018, 09:34 AM

dinotrac

Vegas RN in San Jose

>>We do not have that.

Nobody claims that we have it. The issue is whether we will have it.

>>We all like it when our paycheck inflated a little right? When our house value goes up right?

And there you have the problem with younger people today -- you don't remember the reality of inflation. It's not how much money you have, but what you can do with it. If your pay goes up 50% but prices go up 60%, you need another raise. Not only that, but you'll need one that takes inflation into account. Enough people doing that and inflation spirals upward.

24 Feb 2018, 09:40 AM

Seven Corners Capital Management, Contributor

Author's reply » Nobody is against a growing economy. The question is whether higher deficit spending leads to higher inflation, which leads to higher interest rates. Then what happens to stocks if we have higher inflation and interest rates.

Buffett says under that scenario stocks get drastically marked down in value (b/c stocks are really disguised bonds) - if you do not agree with his view then so be it, but betting against Buffett is usually stupid when it comes to investing/stocks.

24 Feb 2018, 09:53 AM

pjkbrit

Irrespective of political bias this notion is correct. Trump's tax plan infused huge amounts of cash into an already good economy. It's QE done another way at the wrong time. The result can ONLY be inflationary. I grew up in Britain in the 1970s.... I have not forgotten what high inflation and high interest rates did then. Millennials are about to learn.

24 Feb 2018, 10:23 AM

Doobanator

Buffet is not the only one who's been saying this. Read Jeremy Grantham's last couple of quarterly letters at GMO. He's been saying the same thing. Stock market valuation is a function of risk free rate of return. When did people start forgetting this?

24 Feb 2018, 10:24 AM

js204

Remember Dubya's tax cuts and consequent massive deficit spending on the Iraq war? Obama played a round of golf now and again, Trump flies to Mar-A-Lago every weekend on the citizen's dime. Time to windex your mirror and take a good look, Bubba.

24 Feb 2018, 07:05 PM

YourHuckleberry

"Trump tax plan will lead to more inflation and higher interest rates"

That is the ENTIRE POINT, guy. Do you think 1% Fed Funds rate and virtually zero inflation is normal?

I'll go ahead and answer that for you... No, it isn't.

The whole reason that interest rates are so low and there is virtually no inflation in the first place is because the Fed has been throwing the book at the economy since the collapse trying to get it back on track. Interest rates rising and inflation returning is a sign that the economy is returning to normal. That is not a bad thing.

The only problem is the \$20 trillion in debt we have racked up in the process of stabilizing the economy and preventing a total meltdown. Now that we FINALLY have relatively decent increases in GDP growth it is time to tighten up the budget and start paying down the debt so that the rising interest rates don't cost us half of our yearly budget just to service that debt. (We'll see if that happens but I'm not exactly confident in that happening seeing as politicians would rather shut down the government rather than even cutting future spending GROWTH, forget about cutting any actual spending. Because as we all know, it is just SO HARD to make budget cuts because the government is such a lean, mean spending machine without almost any waste, theft, redundancies or bloat, right?)

Interest rates rising and inflation returning was inevitable because higher rates and more inflation is NORMAL. As a matter of fact I wish it happened SOONER so we didn't rack up so much debt in the meantime trying to make it happen.

24 Feb 2018, 09:35 AM

Elenathewise

Nice article. Don't mind the trolls.

24 Feb 2018, 09:36 AM

Vegas RN in San Jose

This imbecile is against a growing and expanding economy I guess. Inflation and pressure on goods and services which causes wages to rise is HARDLY run away inflation.

Learn the difference bro.....

24 Feb 2018, 09:36 AM

Doobanator

It's been two months since the tax plan has been enacted and there are already market gyrations. Try a little second-order thinking.

"First-level thinking is simplistic and superficial, and just about everyone can do it (a bad sign for anything involving an attempt at superiority). All the first-level thinker needs is an opinion about the future, as in "The outlook for the company is favorable, meaning the stock will go up." Second-level thinking is deep, complex and convoluted."-Howard Marks

24 Feb 2018, 10:27 AM

sandymbahamas

Entitlements are destroying, and will continue to destroy several generations of those believing that are somehow owed -many now claim constitutionally- free education, food, healthcare, cell phones....everything..... because, well, they are!

As stated so long ago, there is no free lunch. Not now, not ever.

24 Feb 2018, 09:39 AM

trch3737

If entitlements were terminated the DC swamp creatures would simply accelerate spending like a rocket ship and soon be well past the previous entitlements!

24 Feb 2018, 10:18 AM

trch3737

There are actually vast numbers of "free lunches" to be had at the tax payers expense. They are far too vast to list in the space allotted!

24 Feb 2018, 10:27 AM

Doobanator

You do realize that people pay taxes for their "entitlements." They are literally funded with taxes... So it's not a free lunch....

24 Feb 2018, 10:29 AM

sandymbahamas

Confirming precisely what I wrote: there is no such thing as a free lunch. Someone, or some company, will pay for current free lunches given to those individuals who did NOT pay through taxes. Meaning roughly 50% of the population.

Cannot continue, obviously.

24 Feb 2018, 10:39 AM

YourHuckleberry

@Sandy:

I agree with what you said except for one thing...

Companies don't pay taxes. Consumers pay companies taxes.

24 Feb 2018, 10:50 AM

sandymbahamas

Yo are of course correct. Companies, like countries, are of course just people.

24 Feb 2018, 01:14 PM

Doneonbadstreet

YourHuckleberry-If companies don't pay taxes, why are they so excited about their tax cut? Because it helps their customers?

24 Feb 2018, 01:30 PM

YourHuckleberry
@bad street

In a word, yes.

Because employing people and providing a product and/or service is what they do for a living and now they will be able provide more people with more products and services and thus employ more people.

I know it is difficult for someone who has never employed people to believe but there is a lot of pride and an intense sense of responsibility that comes with employing people and thus enabling them to enjoy a good life for themselves and their families. Now they will be able to employ more people, provide them with better compensation and provide more customers with their products and services. This is good for everyone. Contrary to the tired trope of the anti-capitalist haters out there, the goal for the VAST majority of business owners and executives isn't simply to enrich themselves and everyone else be damned.

And all of that aside, if taxes were increased do you think the company would just eat it and not pass off the increase to the customer in the form of price increases? If not, why doesn't it work both ways in a market economy provided the company doesn't enjoy a monopoly?

24 Feb 2018, 02:24 PM

bullbeartrader

Corporate taxes get built into their product prices. The purchaser of the product pays the corporate tax in the price of the product.

24 Feb 2018, 08:50 PM

TomasViewPoint
YourHuckleberry

Nope. Companies don't always have the ability to pass on increased taxes as price increases drive consumers to alternative choices. Furthermore companies that sell overseas may pass the prices on to those markets not the US.

Not so simple.

24 Feb 2018, 10:09 PM

Doneonbadstreet

Fyour Huckleberry-History has shown that the tax cuts to corporations will be spent primarily to buy back stock, and pay dividends.

25 Feb 2018, 02:25 AM

WMX0102

Bingo. As they did in 2004, they're doing 14 years later.

25 Feb 2018, 10:14 AM

Dovblatt

inflation shouldn't really hurt the good stocks because companies can raise prices if people are getting raises etc

24 Feb 2018, 09:41 AM

trch3737

This is clearly an anti-Trump article couched in supposed equities with tons of words!

24 Feb 2018, 09:46 AM

Seven Corners Capital Management, Contributor

Author's reply » "This is clearly an anti-Trump article couched in supposed equities with tons of words!"

No, it's not at all. Read the whole article - the point is that we are likely entering an era of higher inflation. Forewarned is forearmed.

24 Feb 2018, 09:55 AM

Windsun33

When anyone bases their investment strategy on a politician, you have to wonder how good they really are with their investing.

24 Feb 2018, 11:33 AM

bullbeartrader

Seven Corners, yes it is and I think you are on the losing end of your shorts. Margin call coming perhaps?

24 Feb 2018, 08:52 PM

Dirk Leach, Contributor

Author,

I quit reading when I got to this sentence, "Indeed, it took only a month and a half after the tax plan's passage for investors to feel the first jolts from higher inflation,"

The inflation bump we are seeing now was baked in the cake at least 6 months ago with the unemployment rate in the low 4% range and wage growth got a little boost. If you are at all schooled in economics, you already knew this. So, I can only conclude the following.

1. You are not at all schooled in economics and have no business writing this article or...
2. You are a hurting Hillary supporter attempting to take a cheap shot at the Trump and the Republicans that passed the tax bill.

Either way, your article is not worth reading.

24 Feb 2018, 09:47 AM

Seven Corners Capital Management, Contributor

Author's reply » Dirk - what is your prediction on future interest rates?

24 Feb 2018, 09:56 AM

Seven Corners Capital Management, Contributor

Author's reply » Look at history - rates are abnormally low right now - this cannot last (regardless of who is the President).

<http://bit.ly/2F2mDQN>

24 Feb 2018, 09:57 AM

Dirk Leach, Contributor

Seven,

I expect slowly rising rates for the next couple of years. But, interest rates for 2018/19 were already headed up. The Fed had made that quite clear more than a year ago in announcing the plan to unwind QE by ceasing to roll over maturing bonds the Treasury had acquired.

Blaming the new tax legislation for currently rising inflation and interest rates is like giving credit to the Indian doing the rain dance with thunderclouds overhead.

Did the CBO use dynamic scoring or static in estimating the \$1.4T increase to the Federal deficit resulting from the tax cuts? Do you think maybe the repatriation of overseas cash, increased economic growth, high employment, and higher wages might generate higher Federal tax revenues in future years?

24 Feb 2018, 10:08 AM

2bears

You feel 3 rate hikes in one year is slowly rising? This is what the Fed is aiming for.

24 Feb 2018, 10:59 AM

Doneonbadstreet

Dirk-When you have over 20t in debt, add over a trillion for the tax bill, another for the budget, more for infrastructure, a wall, impact of trade renegotiations, on top of growing debt, deficit, higher debt service costs, a 10% drop in dollar denominated assets, it is pretty clear the main reason some people don't have a problem with this fiscal approach, is because of political preferences, not fiscal decisions.

24 Feb 2018, 11:00 AM

Dirk Leach, Contributor

2bears,

Yes, $3 \times 0.25\%$ over a year is definitely "slowly rising".

24 Feb 2018, 11:16 AM

Dirk Leach, Contributor

Don,

I'm not taking the position that the deficit doesn't matter. If you actually read my posts, I said the authors suggestion that the recently passed tax legislation is the cause of the bump in inflation in January is ridiculous. The ink on the bill wasn't even dry.

Cheer\$!

24 Feb 2018, 11:19 AM

Landlord Investor, Contributor

Dirk - "The inflation bump we are seeing now was baked in the cake at least 6 months ago with the unemployment rate in the low 4% range and wage growth got a little boost."

Possibly. Another possibility is all those \$1000 bonuses companies handed out in January due to the tax cut was the reason wage inflation jumped in January. So the author could easily be correct that the high wage inflation in Jan that led to the market correction in Feb was caused by the tax plan.

24 Feb 2018, 01:02 PM

TomasViewPoint

\$1000 bonuses led to inflation? What a joke.

Wages are going up because it cost much more than minimum wage to get employees to hire on and stay. That's a reflection of a good economy.

24 Feb 2018, 01:04 PM

Landlord Investor, Contributor

"\$1000 bonuses led to inflation? What a joke."

Do you understand what wage inflation is? It's more money paid to workers per hour worked. If the number of hours worked in Jan remained the same but many people got a \$1000 bonus, that would distort the Jan wage inflation data. Therefore, the tax cut could easily be the underlying cause of the Jan wage bump.

24 Feb 2018, 01:22 PM

Dirk Leach, Contributor

Landlord,

While those \$1000 bonuses were certainly appreciated, they amounted to much less than a drop in the bucket. More like a drop into Lake Michigan. The bonuses had no impact on the rate of inflation in January.

Cheer\$!

24 Feb 2018, 04:38 PM

Landlord Investor, Contributor

Dirk,

I wouldn't be so sure of that. Bear in mind that wage inflation is an annualized number. So, a \$1000 bonus paid in Jan is equal to \$12,000 annualized. There were hundreds of thousands of bonuses like that paid out. Let's see if wages revert back to the mean in Feb or if January was the start of a lasting trend. If a lasting trend, then I agree the bonuses had no impact on the Jan wage number.

24 Feb 2018, 05:19 PM

Landlord Investor, Contributor

Actually, make that millions of workers got bonuses. Walmart alone accounts for over a million employees and they gave everyone tax cut bonuses.

24 Feb 2018, 06:07 PM

JazzPaw

Those \$1000 bonuses are a drop in the bucket. They are not wage inflation since they don't even raise base pay in the out years.

If real wage inflation comes about, it will be the result of labor shortages that cause competition for workers. I really don't see that happening. My worry is that the growth doesn't accelerate and the debt continues to grow with out higher GDP growth.

Government debt will become more expensive and that cashflow will either be redirected from government spending, causing a slower economy, or more will be borrowed to keep things going. Higher interest rates will also suck up more discretionary income through private debt service.

24 Feb 2018, 09:21 PM

TomasViewPoint

If that's the case then we have nothing to worry about and 1 month's data is not inflation.

24 Feb 2018, 10:10 PM

Doneonbadstreet

Dirk-We saw a greater than .25% increase on quotes on a thirty year mortgage refi in a matter of weeks this year.

25 Feb 2018, 02:26 AM

WMX0102

The vast majority of workers didn't though!!!

25 Feb 2018, 10:19 AM

PTR1234

It can also be a deficit of skilled workers for certain areas. I think there are still many people looking for work but lack the new skill sets being demanded by companies. I think it was a WSJ article this week (can be googled) that noted the 2018 college class will only provide 35% of the needed workers with IT skills. These grads will have a projected 3-5 job openings each to choose from. They will enjoy wage inflation. The others not so much. Most of the young people (there will be exceptions by exceptional people) that enter today's job market with only a high school degree or GED will need some amount of federal assistance throughout their lives to survive. Some things may stay the same but needed skill sets will always change.

25 Feb 2018, 02:26 PM

topturn

I don't agree inflation is necessarily bad for companies or the economy as history has proven. Seems more like a political article anti-tax laws and Trump to me.

24 Feb 2018, 10:02 AM

Windsun33

I guess you were not around when mortgage rates hit over 20% or you would know how bad things can get when you hitch your horse to political rhetoric.

24 Feb 2018, 11:35 AM

Pat Lynn

The bigger you are the harder the fall. Time to bail now on NFLX.

24 Feb 2018, 10:08 AM

OnTheFly83

This article gave me a good laugh. Talk about reaching.

24 Feb 2018, 10:12 AM

r9vwyatt

A reduction in the tax rate could also lead to an increase in tax revenue and I don't think the impact of this is fully priced into valuations. I think the SNP will hit 3000 by year end

24 Feb 2018, 10:13 AM

belz

Author,

It is well known that when you increase interest rates you negatively affect investments. That means that the high growth companies might need to temper reinvestment.

One big change in the new tax law, that you have not mentioned, is that for the next 5 years companies will be able to write off 100% of a new investments (including buildings) as an expense in ONE year...no need to depreciate. At the end of 5 years in 2023, investment write-off is reduced every year to 80%, 60%, 40% and settles at 20% in year 4 where it remains.

Companies have a massive stimulus to invest in the next 5 years.

Your price to book value measure is of virtuality no value because book value is near meaningless as an indication of the true market value particularly in an inflationary environment.

When inflation was relatively high and growth anemic , Apple, Microsoft , Oracle, Cisco etc. were very good investments. The stalwarts like GM, Kodak, GE (except for its financial arm) we're struggling.

The lesson learned, is that when the economy restricts corporate growth via higher interest rates, the innovators come out on top. That includes the great depression and stagflation of the 70's. I note you are long AAPL, I hope you acquired it decades ago.

Long AAPL, Goog, Amazon, BA, Amgen, IBB, Intel and other grey matter driven companies.

24 Feb 2018, 10:14 AM

newfruit

I enjoyed this article. It's always worth taking a look on the dark side not just where the sun is shining. I'm very interested to see how AMZN performs in a downturn. When your margins are so thin how will it shake out when people tighten their spending?

That deficit projection for the next 10 years is quite something!

24 Feb 2018, 10:14 AM

Windsun33

newfruit - it is not just the country's debt - personal debt is also getting close to record highs. The banks and credit card companies are already reported increasing defaults. Add to that student loan debt, higher mortgage payments, higher gas taxes (maybe) etc. and it starts to look worse.

24 Feb 2018, 11:39 AM

bullbeartrader

Canada now has the highest (or close to) personal debt per capita in the world and Trudeau raises taxes and spends like an ex with your credit card.

24 Feb 2018, 05:29 PM

coolsoupy

TESLA? How can one mention this along with real companies?

I would rather play with a live hand grenade !!!!!!!!!!!!!!!

24 Feb 2018, 10:25 AM

jebstang

Demographics and government regulations have more to do with inflation and GDP growth. The Fed debt fueled anemic recovery was like pushing a 10 ton rock up hill. America is aging and therefore spending less when adjusting for consumer debt. Low interest rates were intended to encourage purchases. Easy student loans were intended to increase or sustain our institutions of higher learning. Rising interest rates have more to do with supply and demand for debt worldwide. With Central Banks cutting, curtailing QE, what results in more supply of debt than demand hence rates must rise to attract new investors. Higher interest rates draw in more retirement fund investments. Rates will have to rise to sustain the ever increasing supply of government debt. This will eventually tank the stock market. I agree these growth stock will reset more dramatically than lower PE stocks since they have much further to fall to reach the mean. However, weaker companies like Tesla may not survive at all if this reset happens in 2018/19.

24 Feb 2018, 10:25 AM

yellowpage

OP is down on Netflix for 40%+. This is just another nonsense article. Remember what I said about NFLX technical analysis? The gap is a strong support, it won't be filled and NFLX will continue higher. And you'll never break even.

Looks like I am right and you are wrong. Again.

24 Feb 2018, 10:40 AM

dahlingbebe

From what I have been seeing is I'm really sorry I do not have more AMZN and NFLX

24 Feb 2018, 10:42 AM

Just Some Guy

OMG companies will have more money, and this is bad (wrong). And they're already paying workers more money, and that is bad (wrong). And inflation, that is bad (wrong) - so why does the Fed want more of it? Yes, the markets express a fear of inflation - every time a worker gets a raise. Yet wages have been below inflation for a generation. To me that sounds like a crying need for higher wages, and just getting wages back where they were thirty years ago should hardly cause inflation - which has been missing in action since 2008. The Fed *wanted* more inflation than we've got for over ten years.

You need to get out more. A lot of nonsense plays across the conventional financial pages these days, just as #fakenews is all over the mainstream press. The putative extra debt from Trump's tax cut first of all is small compared to the structural deficits we've been running since 2008. Second, that's a static analysis and the hope and expectation is that it will generate so much more economic activity that the deficits will be greatly reduced or even net positive. The whole *idea* is that it turns out net positive. So cheer up.

Anyway Tesla and all the FANG stocks sell on hype, and their profit numbers are entirely manufactured, so they will manage to sell on hype ... until they can't anymore. Tesla especially seems to be living on borrowed time, I'm sure you know the story there. When they crash it will hardly be Trump's fault.

24 Feb 2018, 10:44 AM

Mad Who

Buffett supports the corporate reform.

24 Feb 2018, 10:47 AM

jaxhawk1

SS & Medicare are gone, taken by Congress just like everything else. Congress hid their debts on the backs of the people. Don't tell me SS is the problem. Tax cutting is one form of debt which Republicans love. SS IS GREEN but Republicans alone want it dead. It is payed for my income taxes and we all know pay wages are at 1970 levels. Why when profits go up every single year. These same people are the ones that will create the next DEPRESSION. The real takers in America are the CEO's that continue to strip America for their own greed.

24 Feb 2018, 10:58 AM

YourHuckleberry

I hate to be the bearer of bad news but your Social Security contributions were spent long ago, jax. The government isn't "holding" the money you have paid into it for you, they already spent it. And if you are lucky enough to get your SS before the whole thing collapses, they will be paying you with new contributions. This is the dictionary definition of a Ponzi scheme and all Ponzi schemes eventually collapse and fail. Social Security is already dead it just hasn't officially stopped breathing yet. If you're under 50 I'd start planning on a retirement without SS if I were you. I know I am.

24 Feb 2018, 11:19 AM

Doneonbadstreet

YourHuckleberry-A dictionary definition of a ponzi scheme does not involve a sovereign state or central banks with the unlimited power to create currency.

24 Feb 2018, 11:54 AM

YourHuckleberry

Fair enough. But sovereign states and/or central banks don't have unlimited power to create currency in practice either. And if they test that reality, that will just be more fuel in the rocket when it eventually explodes.

24 Feb 2018, 12:05 PM

aptbg@aol.com

Social security and Medicare would not be an issue if the contribution caps were taken off and everyone was required to contribute on every dollar of earnings. Also if the federal government would stop borrowing from these accounts and not paying them back.

24 Feb 2018, 10:58 AM

YourHuckleberry

Stop borrowing from them? That ship has sailed, my friend. The moment the government raided SS and spent all the money it became the dictionary definition of a Ponzi scheme, requiring new money to pay off the old. And seeing how the Ponzi scheme model has a 100% chance of failure, historically, I wouldn't be counting on it lasting long enough to get a nickel if you're under 50 years old.

24 Feb 2018, 11:24 AM

smselect14

I still find it fascinating, your hypocrisy, the debt is up about 9 trillion in the last 10 years! Where was all your concern and comments at that time! Tesla is so over priced now, who would own it? They have so many other issues, a problem with production is one example. Interest rates are the least of there concerns.

24 Feb 2018, 10:59 AM

john.blockchain (aka Fairplay)

Trump has minted a lot of new Deficit Hawks who have suddenly found their voices after 8 years of either being mute or brain dead. Our job is to hold them to this new concern about the debt if the Democrats ever have control of the federal government again.

Hypocrites, to a man.

24 Feb 2018, 03:08 PM

smselect14

Amen!

24 Feb 2018, 03:52 PM

Doneonbadstreet

John-No party in power is that focused on fiscal responsibility. Does not pay.

25 Feb 2018, 02:26 AM

mikesall

This article is ridiculous. The idea that a fixed income instrument which loses money to inflation is the same as equity or Real Estate or any other hard asset losing value is preposterous. If I buy a \$1000 bond at a time when one dollar will buy four apples, and then 10 years later I'm returned that thousand dollars but a dollar will only buy two apples, I have effectively lost half of my money...aka purchasing power. That loss is permanent. No change in the economic cycle will recover those losses. If on the other hand I have a successful business that is slowed up because of inflation, or Real Estate whose prices decline because of higher inflation/higher interest rates, after the inflation subsides the value of my business, everything else being equal, will assume a new inflated dollar price. There is no permanent loss. This is vastly different from bonds.

24 Feb 2018, 11:00 AM

Doneonbadstreet

Mikesall-Hisory has not shown the dollar to rise in value when government spends more than the revenue every year. Look at a chart of dollar value. You may not be making the money you think on stocks, after accounting for the drop in the dollar.

24 Feb 2018, 11:18 AM

Seven Corners Capital Management, Contributor

Author's reply » "The idea that a fixed income instrument which loses money to inflation is the same as equity or Real Estate or any other hard asset losing value is preposterous"

Nobody said RE is the same - RE should appreciate in value along with inflation. Buffett was talking about equities - his point is that equities are disguised bonds paying a 12% coupon (i.e., ROE) on par value (i.e., book value). Why? B/c equities have consistently had a 12% ROE during inflationary and non-inflationary environments. Either you agree with this premise or you don't.

24 Feb 2018, 01:13 PM

Iudus

Higher government deficit spending with a currency that the central bank can readily make available would create inflation IF the economy was a closed system AND the pool of lenders to the government was therefore drawn entirely from within the system. These conditions aren't met. There is a lot of demand for the government debt outside the national economy. That's in part why it hasn't been inflationary so far.

Not saying it might not become inflationary pressure but this fact has to be accounted for.

24 Feb 2018, 11:01 AM

Jet Fan

Like the optimism!

I seem to remember the 70's and 80's. Gerald "WIN buttons" Ford and Jimmy Carter. Check the interest rates Warren was referring to back then. Warren is not God...he missed a lot of opportunities too...especially in high tech. The debt is ridiculous because we have a governmental infrastructure that is riddled with waste.

24 Feb 2018, 11:03 AM

john.blockchain (aka Fairplay)

If you'd started pouring money into stocks on the date of this Buffet quote, you would have massively outrun any impact from inflation.

Authors on here act like if inflation increased it would be some kind of permanent condition.

24 Feb 2018, 03:06 PM

Commonnonsense

"We have an infinite capacity for self-delusion as investors," said Bruce McCain, chief investment strategist at Key Private Bank. "When we feel good, we don't want to be bothered by reality."

For me, this quote encapsulates the thought processes of certain "investors", gamblers, cult devotees and starry eyed lovers.

Tesla longs are all four.

24 Feb 2018, 11:05 AM

YourHuckleberry

Exactly. Tesla is a cult because you have to be detached from reality to believe in its current valuation. That is why I always call its leader "Elron Musk". It's just too fitting.

24 Feb 2018, 11:45 AM

Windsun33

It is not just Tesla lovers. From reading many comments, it seems like there is also a cult following for tax cuts, trade barriers, and cutting "welfare". It is kind of like marveling at the crystal clear swimming hole, diving in without checking the alligator population.

24 Feb 2018, 12:02 PM

YourHuckleberry

While I agree with you regarding trade barriers I'm going to have to disagree with you on the other point, Wind. Wanting a smaller government is actually a step toward individual independence and away from centralization and communal acting and thinking. A cult requires communal thinking and acting and simply cannot exist where there is individual independence and decentralization. So calling people who want less government a "cult" is antithetical to its very definition, in practice. Even if we all agree that we should be independent, that doesn't make it a cult.

And if the swimming hole is crystal clear, why can't you just see if there are any alligators?

Cheers!

24 Feb 2018, 12:26 PM

PTR1234

yourhuckleberry - You don't see the alligators because you are blinded by the sun reflecting off of the crystal clear water.

25 Feb 2018, 02:37 PM

Mr. Vegan

Very interesting and thought provoking article. Thank you!

24 Feb 2018, 11:06 AM

Mad Who

"The passage of the Trump tax plan looks to be a major negative for companies like Amazon, Tesla, and Netflix."

The answer for most new way or technology companies are good guesses.

But companies are valued on guesses of free cash flow. For companies selling at high multiples of book, this means cash flow must come from taxable earnings. Once the tax loses are exhausted.

As for interest rates, the Fed monetized the epic eight year Obama failure. Interest rates were artificially depressed, money printed and our stated national debt doubled.

Only now that America has adopted growth policy, is the fed beginning the process of normalization. Allowing markets to influence interest rates and selling off the now massive Fed balance sheet. Which is to say undoing the dangerous emergency measures Obama's insanity made necessary all

eight years.

It is true lower marginal tax rates or even higher material interest rates / discount rates will have little impact on these companies operations or valuations. As the guesstimates of future growth are simply so large, it overwhelms both.

For a company like Tesla burning through cash while not meeting critical product production/sales goals, the problem is not marginal tax rates or discount rates. Mr. Market must continue to believe and provide new capital at astonishingly low cost or vapor valuation.

As for Netflix, it is a consumer product. It will greatly benefit from full employment and rising wages. Which explains why after some real disasters, they have been able to sustain some very large price increases. Record consumer confidence makes customers less price sensitive too.

I will avoid getting into the very real disruption of our retail industry driven by Amazon. As the point is established is all far more complex than the limited variables introduced. Which simply can not sustain such sweeping conclusions.

24 Feb 2018, 11:12 AM

Doneonbadstreet

Spoof-Higher interest rates are a headwind for stocks, bond and real property. The value of dollar denominated assets dropped 10% in one year. They increase, debt, deficits, spending, and debt service. If the average person gets \$1000 one time, but their net worth drops 10% in one year, and they pay for the increased debts as long as they live, is that something people would support?

Neither party supports a balanced budget when they are in power, because they could not use spending to reward their constituents.

24 Feb 2018, 11:13 AM

EnterUserNameHere

People keep saying "they're overvalued, so so overvalued" but when you take into account future growth and revenue they're undervalued. Just look at Amazon and everything they have their hands in. You'd be a fool to think Amazon is overvalued, Netflix might be slightly overvalued and Tesla I would agree is currently overvalued. But Amazon is without a doubt UNDERVALUED. Either way any dips in Amazon will be a great buying opportunity for smart investors.

24 Feb 2018, 11:19 AM

Kevin(twincities)

Seven Corners

Great article. I agree to most of it. It is very telling that most commenters on here have forgotten history. With the Fed unwinding its Balance Sheet, interest rates have no where to go but up. We are just barely starting to see the effects of this "reverse QE". It makes no sense to say that Amazon will keep inflation low. They will have to pass on increased costs. Do people really think that Amazon will go from their very low margins to negative margins?

24 Feb 2018, 11:24 AM

Glenn Abbott, Contributor

I love alarmists with theories. Tax reduction and (8 years too late) fiscal stimulus into an already strong economy seems crazy. Inflationary for sure. But wait. The fed is lowering liquidity -- retiring all that QE (i.e new printed money) every month. They are also likely to modestly raise interest rates - that is the fed is acting in a DEFLATIONARY manner. The net effect? Likely not much and steady as she goes like the past eight years.

The problems with the great inflationary thesis are many:

- 1] Globalization and union destruction give workers little or no power to force wage increases.
- 2] I believe rapid tech advances are deflationary for most commodities, especially the most important one, oil.
- 3] Continued encroachment of automation reduces production costs.
- 4] Continued destruction of old economy and rapid rise of new economy companies further increase efficiency and hold down prices (think amazon).
- 5] Inflation is not necessarily the norm -- it was only the norm in the bulk of many folks alive today's adult lives -- circa 1972-1995.

Much as I hate to say it I think the tax cuts and fiscal stimulus will act basically to counter the vacuuming up of all that loose money by the fed and perhaps boost economic growth into the 3% range which is very sustainable without much or any inflation at all.

24 Feb 2018, 11:25 AM

wwctrue

I believe that if the savings from the tax cuts are invested to keep energy costs low and to raise worker-productivity high, then inflation would be low or increase slowly.

24 Feb 2018, 01:05 PM

sopranox1x

This spin is quite interesting. Higher inflation and higher rates will result from higher gdp growth and wage growth. Growth is desperately needed after anemic growth over the last 10 years.

People concerned with higher deficits need to realize that the ONLY chance we have to reduce our National Debt is through higher GDP growth. If we continue growing at 1.8% growth, there is absolutely NO chance of ever reducing our debt....no matter how much we cut spending. Which will never happen anyway because Democrats will run ads saying republicans are trying to throw granny over the cliff if they try to cut spending.

Something that is less talked about is the possibility that higher rates could be good for the economy. Baby boomers make up the vast concentration of wealth in this country. 10k baby boomers per day enter retirement each day (distribution phase). In the past, retirees could rely on 5% yields on relatively safe fixed income to fund their retirement.... never having to touch their principle. But now with paltry yields, retirees are faced with either 1) having to spend less or 2) cut into their principle. Most likely they are doing a little bit of both. With higher interest rates retirees may end up spending/consuming more therefore stimulating the economy. That aspect is overlooked.

24 Feb 2018, 11:32 AM

Doneonbadstreet

Sopranox-How are higher interest rates, more debts and deficits going to improve the net worth, income or spending of retirees? Any modest increase they get in taxable income from interest bearing assets is more than offset by a drop in the value of stocks, bonds, and real property, then we have higher debt service costs, and a drop in the value of dollar denominated assets.

24 Feb 2018, 12:35 PM

john.blockchain (aka Fairplay)

Drops in stock prices don't impact a retiree's income. In 2008-2010, it was income, not assets, that was valuable.

Drops in the value of real property are meaningless unless you're planning to sell, and could actually benefit retirees if their property taxes are tied to real market value. Fixed-rate mortgages don't care what interest rates do.

24 Feb 2018, 03:02 PM

Doneonbadstreet

John-Drops in stock value affect spending. One of the reasons the Fed wanted the "wealth effect" and propped up the market with low rates to improve spending.

Drops in home value are not meaningless. We are doing a refi that will allow us to spend more on other priorities, and we would not if the value had dropped.

An increase in rates reduces purchases of homes, and when people buy homes, they buy lots of other consumer goods, which are 70% of our economy.

25 Feb 2018, 02:26 AM

PTR1234

sopranox1x - If more than 1000 of those 10,000 per day retiring boomers have more than \$10,000 worth of stock I'd be amazed.

25 Feb 2018, 02:41 PM

bullbeartrader

PTR1234 You have got to be kidding, all the boomers I know, myself included have between 1/2 and \$1 Mil in stocks.

25 Feb 2018, 03:50 PM

Doneonbadstreet

Bullbeartrader-Hard to believe, that the people you know do not represent the median or average dollar amount of securities owned? Guess what the average or median is?

25 Feb 2018, 05:24 PM

howarddork

I graduated from HS in 1976 and remember inflation quite well - you could get a mortgage for 30 years fixed at 17%. Guess what that did for home prices and the stock market. I imagine there were real tears in 2006 when 30 year Treasuries matured. If inflation comes back in a real way it will crush the stock market.

24 Feb 2018, 11:35 AM

john.blockchain (aka Fairplay)

Yeah, I often lament missing those early-80s 30-year Treasuries.

24 Feb 2018, 02:59 PM

Ken Hamermesh

Buffett was saying the only/best way to fight inflation is with higher margins. Sounds like Apple is following this advise, Amazon and Netflix not so much.

24 Feb 2018, 11:44 AM

azimov

My first house bought in 1974 the interest was 7.8%. Second house, bought in late 77 interest 8.2 %. I made 25% on both. With proceeds I built a house on 44 acres in 1981 the interest rate was 13.25%. Ya, I Re-fied in 84 for around 9 %. The difference between then and now is the deficit - then 1.2 billion now 20 trillion....People mistakenly believe growth comes from lowering taxation level by boosting economy. Never happened.... it's a friggen re-run.

Point fingers now....point at your neighbor for getting Social Security, Medicare. Point at government for being incompetent. Meanwhile Germany, Canada, New Zealand, move forward with inclusive government. Intelligent decision making, while the USA repeatedly since Nov. of 1962 one fiasco after another. Time is up. Bernie Sanders ideas for this former Republican. It's time rich and poor have medical insurance and it's time to pay the debt with a carbon tax of 50 cents a gallon.

24 Feb 2018, 12:05 PM

john.blockchain (aka Fairplay)

It's time for you to move to Canada, Germany or New Zealand. Too many negative people in the country as it is.

24 Feb 2018, 02:58 PM

magnum990

when thinking about interest rates do not forget about the tremendous demand for government bonds and fixed income products. QE unwind can have short term pull on rates but long term levels will be established by demand which has overwhelmed supply in the past and will continue to do so in my opinion. think about the aging population, insurance and pension funds - where do they park their money? where do sovereigns park their surplus? there is not enough bonds to feed the enormous appetite. a fifty percent unwind of all the central bank balance sheets will only comprise 5-10% of the global bond market. this can put short term pressure on yields but it has very little impact on long term dynamics. if 10yr treasury yield rises above 3.5% the demand will get even stronger. i would certainly put some of my cash into bonds at those levels. will this be bad for stock markets? not a chance, if the rise in yields is driven by economic growth and increase in consumer spending power. moderate inflation is very good, it's a sign of a healthy economy. the little guy is finally seeing some wage growth after stagnant wages for last ten years and this is a bad thing?? this is the best thing that has happened for financial markets and the economy since the great recession. i would use the analogy of an invalid who has finally recovered and is able to walk on his own two feet, but people are worried he will fall and break his legs. it's downright silly. let's enjoy the economic growth and hope we can stabilize into a GDP of 3%+ and inflation >2% and 10yr treasury yields in the range of 3.5-4%. That's the recipe for AMZN 3K.

24 Feb 2018, 12:07 PM

Doneonbadstreet

Magnum-Does anyone believe the actual rate is inflation is 2-3%?

24 Feb 2018, 12:47 PM

magnum990

for discussion i like to use establish economic metrics such as CPI and PCE. they offer consistent benchmarks free of anecdotes and opinions. do you have a different metric, what does it say?

24 Feb 2018, 01:00 PM

Doneonbadstreet

Magnum-CPI and PCE are not exactly sourced from entities that are disinterested third parties. Inflation depends a lot on location. Much of the U.S. is in bad shape. If you want actual adjusted for inflation figures, don't look to government. If I cite a source, people will critique the source, more than the methodology. Anecdotes are relevant, because they are the real world. Rents are up over 100% since 2005 in the area I live in. Housing prices are up almost 100% in 10 years. The dollar has dropped 10% in one year. Groceries, insurance, energy, medical care, are up. Has your cost of living gone up 2% in a year?

24 Feb 2018, 01:51 PM

surferbroadband

"Trump's recently passed corporate tax cut bill should lead to larger deficits, increasing inflation, and higher interest rates."

Wrong.

"Warren Buffett explained back in May 1977 how inflation swindles the equity investor."

Thats right, 1977.

"Expect marquee tech stocks such as Amazon, Tesla, and Netflix to be most negatively impacted by passage of the tax bill."

And your are short with all 3 of those stocks.

Start with a wrong premise, pull up something from 40 years ago, then top it off with your own agenda. Got it!

24 Feb 2018, 12:35 PM

Seven Corners Capital Management, Contributor

Author's reply » Not short AMZN. Not anti-tech either, long AAPL.

24 Feb 2018, 01:19 PM

howarddork

How is bigger deficits wrong? Higher interest rates are guaranteed by the Fed so that seems right. We'll see about inflation. And good luck taking the other side of a bet with the wizard of Omaha.

24 Feb 2018, 02:22 PM

WinningSun

The author has made an accounting analysis of an economic situation by referring to a 1977 analysis without taking into account the technological revolution taking place at the moment.

<http://bit.ly/2txR1wp>

I look at the future having in mind Tony Seba's analysis.

- 1) Petrol price going down to \$ 25
- 2) quantities of cars reduced by 80%
- 3) much cheaper solar energy

Inflation? certainly not. Rather deflation given the important component that oil has in the price of all our consumer products.

I now classify companies into 2 groups. Those who will benefit from this revolution and others who will suffer. I am long on the first and short on the others.

I am short BMW, DAIMLER, FORD, GM and I am long SMA, TESLA, NVIDIA, AMAZON. Since January 1st, I got 12% return.

I admit my short position didn't give me yet a great return but it has.

25 Feb 2018, 05:42 AM

Golfrangeguys

Tax cuts do not cause inflation. Inflation is caused from shortages! Tax cuts are simply allowing citizens to keep more of their own money to spend, invest, innovate, or save. Cuts do not create shortages of anything (except to politicians personal bank accounts).

24 Feb 2018, 12:49 PM

howarddork

That would be true if the government cut spending along with taxes. But I see no sign of that. So there will be more money chasing the same stuff.

24 Feb 2018, 02:24 PM

YourHuckleberry

@jr

What you said would be true if they were giving the tax cuts only to the consumer. But also giving tax cuts to the people who create the stuff enables them to make more stuff as well, thus balancing the ledger.

And when everyone has more money and businesses grow the more the government will bring in even with a lower tax rate. All you have to do is go back and look at government revenue after the tax cuts of the mid-1980's and early 2000's. Did government revenue increase or decrease afterward?

24 Feb 2018, 02:38 PM

Doneonbadstreet

YourHuckleberry-Perhaps you forgot after Reagan cut taxes, he then increased them more than any president had previously, which is a primary reason revenue went up so much. His greatest regret was taking us from greatest creditor nation to greatest debtor nation in just 8 years. Fiscal responsibility?

25 Feb 2018, 02:26 AM

Landlord Investor, Contributor

Nice quotes from Buffet. Your article may have broader appeal if you also included this quote from the sacred saint of all things conservative:

"Inflation is as violent as a mugger, as frightening as an armed robber and as deadly as a hit man."

-Ronald Reagan

24 Feb 2018, 01:07 PM

Seven Corners Capital Management, Contributor

Author's reply » Nice quote. The following is from a recent CNBC article on inflation / Buffett:

"It's worth remembering that the worst stock performance of the 1970s came not when inflation peaked but when it first spiked rapidly. From 1972 to 1973, inflation doubled to more than 6 percent. By 1974 it was 11 percent. In those two years, the S&P 500 declined by a combined 40 percent. Inflation was higher in 1979 and 1980, topping out at 13.5 percent, by which time the S&P 500 had long returned to positive performance, though on an inflation-adjusted base. It was a lost decade for stocks."

So who better than Buffett to explain some of the basic mechanisms at work when stocks run into inflation? As Buffett stated in one of his inflationary era letters, when it comes to inflation and stocks, there is one unsolvable problem: "Berkshire has no corporate solution to the problem. (We'll say it again next year, too.) Inflation does not improve our return on equity."

<http://cnb.cx/2Bv6fGD>

24 Feb 2018, 01:28 PM

okey dokey

Nice quote, good job Reagan didn't do something stupid like increase the national debt by \$1.86 trillion, oh he did. Never mind, ignore that bit and just name another building after him :)

24 Feb 2018, 08:05 PM

Seven Corners Capital Management, Contributor

Author's reply » "more money in consumers hands and higher corporate profitability in lieu of tax breaks and possible wage increases are a bad thing"

No - from an investment perspective, it's obviously good for highly profitable companies that trade at reasonable valuations. It's bad for minimally (or un)profitable companies that trade at extremely high valuations. That's the point. Of course, any tax cut will act as economic stimulus, at least for the short to mid-term. Long term it's much harder to tell the effect.

So, to sum up the article is not anti-tax cut or anti-Trump - it's an attempt to determine the winners versus the losers in the stock market from the tax cuts.

24 Feb 2018, 01:08 PM

yanming_sv

There will be very limited or none negative effect on TESLA.

Instead, TESLA will soon make profits, and the Tax Cut will help.

People shorting TSLA just wants to make the TSLA down. This is the only base.

24 Feb 2018, 01:10 PM

sandymbahamas

One cannot reason with unreasonable people.

24 Feb 2018, 01:28 PM

john.blockchain (aka Fairplay)

Define "soon"

24 Feb 2018, 02:54 PM

YourHuckleberry

I think he means "soon" as in...

Soon, the Sun will turn into a Red Giant and engulf the Earth.

24 Feb 2018, 03:34 PM

BuyinLow

No matter what the the Economy is strong it will continue to grow and the market will go up with the economy inflation will affect it some by not to the extent they are saying we will have a huge boom and profits will Be HIGE it will be able handle the rate hikes with the Growth!

24 Feb 2018, 01:16 PM

Doneonbadstreet

Golfrange-Tax cuts cause inflation when they result in more debt and deficits.

24 Feb 2018, 01:31 PM

LARRYKURTZ

I think you're wrong. Why is the market back to its highs after a moment of a correction. The people that run the mighty funds of America are investing as fast as they can. The Socialists.-democrats no longer in control. Businessman President Trump is that's why these companies are making lots of money to grow. That's why unemployment for African Americans and Latinos are at all time lows. Young man you started with a flawed idea and ended with a terrible conclusion. Trump in 2020 and we will all be wealthy except for you.

24 Feb 2018, 02:04 PM

ssfranny

They're front running any gains before midterms when the Dems will (not if) take back Congress. Then they'll likely repeal the tax reform bill and other stupid legislation.

26 Feb 2018, 10:34 AM

Onafunjourney

You don't need to be an investment expert to see the writing is on the wall, or in this case in the headlines. The late 2017 and early 2018 reemergence of the word BOOM is one of the best contraindications you can expect to find for stock performance over the next 3 - 5 years.

Valuations and sentiment have been extreme for a while, but adding tax cuts to 8-year GDP expansion, late in a bull market is a recipe for a boom. And we all know there's only one thing that ever follows a boom!

24 Feb 2018, 02:42 PM

YourHuckleberry

@Onafunjourney

"8-year GDP expansion"

Is that a joke? Compared to what?

Real and nominal GDP Growth has been decreasing since the 1940's.

Real GDP Growth by decade:

1940's: 5.6%

1950's: 4.2%

1960's: 4.5%

1970's: 3.2%

1980's: 3.1%

1990's: 3.2%

2000's: 1.8%

2010's: 2.1%

So where is this amazing GDP expansion you speak of, exactly?

<http://bit.ly/2EZkTYR>

24 Feb 2018, 03:49 PM

okey dokey

"And we all know there's only one thing that ever follows a boom!"

Non-inflationary constant expansion?

24 Feb 2018, 08:10 PM

john.blockchain (aka Fairplay)

You may have discovered a negative impact from the tax bill that even the market hasn't recognized. Since the passage of the Trump/Republican tax bill, NFLX is up 46 percent. AMZN is up 26 percent. TSLA is up 11 percent.

24 Feb 2018, 02:53 PM

birder

Well, the Fed has been working diligently for 10 years to generate inflation. Now that it appears they might be succeeding everyone is panic stricken. Long term interest rates of less than 6% are stealing from savers and that has been happening for too long. Back in 2007 one could get 5% on T-bills.

Well, we equity investors have had 8 nice years of excessive returns. It is probably time to take some of the money off the table. Wait until the next panic hits. If Trump is impeached that will be the time. Even if not the mid-term will shift everything to the Democrats. That too might just be the catalyst.

24 Feb 2018, 02:58 PM

papita

I see where your priorities lie. quoting CNN,talking about larger deficits.

cross you off my list right away.

24 Feb 2018, 03:16 PM

Seven Corners Capital Management, Contributor

Author's reply » Breitbart: "Wednesday's Inflation Data Could Send Stock Market on Another Wild Ride"

<http://bit.ly/2sTJoSc>

24 Feb 2018, 03:21 PM

Seven Corners Capital Management, Contributor

Author's reply » Breitbart:

"U.S. consumer prices rose more than expected in January, adding to fears that inflationary pressures could lead the Federal Reserve to tighten monetary policy at a faster pace.

The Consumer Price Index, or CPI, increased 0.5 percent in January, above expectations for a gain of 0.3 percent, according to data from the Department of Labor. The year-over-year increase was 2.1 percent, above expectations for a 1.9 percent gain.

Core CPI, which excludes volatile food and energy components, rose 0.3 percent from the previous month, above forecasts of 0.2 percent. It is up 1.8 percent on a year-over-year basis. Economists had expected 1.7 percent."

<http://bit.ly/2F4tFVI>

24 Feb 2018, 03:22 PM

wwt17

Those inflation fears are suddenly rocking Wall Street. They sent the Dow plummeting 1,800 points in just two trading days. The losses wiped out a quarter of the gains since Trump's election.

A week later all was forgotten as the dip buyers jumped back in feverishly.

24 Feb 2018, 03:54 PM

Adeplorable1

The valley supported the left wing wack jobs who Hate the US. The President should punish those who invest in anti US companies ... and he is.

24 Feb 2018, 03:57 PM

kemalefe1

Nobody uses price to book ratio for growth companies. Price to sales ratio is more appropriate. By the way, for TSLA, price to sales ratio has actually decreased over the last year, and soon it will start growing again.

24 Feb 2018, 04:02 PM

mvelazquez32277

3/10/2018

Trump's Tax Plan: Bad News For Amazon, Tesla, And Netflix Shareholders - Amazon.com, Inc. (NASDAQ:AMZN) | Seeking Alpha

So lower corporate tax and higher interest rates, does that make FB a winner considered they have no debt???

24 Feb 2018, 04:11 PM

snaimpally

Thanks for the article and analysis. Thanks for linking to the Buffet article - I plan to read it in its entirety. Brilliant the way he said stocks are basically bonds that yield 12%.

24 Feb 2018, 04:50 PM

Mikie713

Some serious fear pushing hogwash by in this piece. No one getting extra cash in their pockets from tax cuts will be cutting off their Netflix or buying swag from Amazon any time soon.

24 Feb 2018, 05:13 PM

ssfranny

No one knows what they're getting in regards to tax cuts yet I'm not seeing a ton of articles about how much people are saving.

26 Feb 2018, 10:38 AM

bullbeartrader

\$250 a month less in Federal tax here.

26 Feb 2018, 10:42 AM

Doneonbadstreet

Bullbeartader-More Federal tax here.

26 Feb 2018, 11:12 AM

bullbeartrader

You make great bucks! Be Happy to finally pay your fair share!

26 Feb 2018, 11:35 AM

jimamitch

As an investor in AMZN and NFLX, please give me some more bad news. I promise, I can take it. \$\$\$\$

24 Feb 2018, 05:50 PM

chowlettjr

The main premises of this article rests on a falsehood. That is the tax bill will increase the deficit without any growth and zero increase in employees cash and spending. Both have been proven false already. Over 400 companies have announced bonuses worth between \$1,000 and \$3,000 and / or increased wages (Wal-Mart increased their minimum wage from \$11 to \$13 per hour, a \$4,000 annual increase for a full time employee). If the economy grows by 0.4% because of this tax overhaul the increase taxes will pay for the tax reductions. Additionally, SCCM seems to state inflation will jump out of nowhere just because of the tax plan all the while the Fed has been forecasting increase inflation for the last 2 to 3 years. Seems like this was written as a hit piece against the tax plan by some partisans.

24 Feb 2018, 05:54 PM

48358855

Governments help to create inflation as a means of dealing with their inability to repay borrowing anytime soon. When you need a wheelbarrow of cash to buy a loaf of bread a generation from now \$20 trillion won't seem like a big deal.

24 Feb 2018, 06:02 PM

Joshua Pickett

<https://seekingalpha.com/article/4150289-trumps-tax-plan-bad-news-amazon-tesla-netflix-shareholders>

3/10/2018

Trump's Tax Plan: Bad News For Amazon, Tesla, And Netflix Shareholders - Amazon.com, Inc. (NASDAQ:AMZN) | Seeking Alpha

So if you take a certain amount of time and average out how much of a percent you get on a return in your investment you find that stocks DONT protect against inflation? ok %12 return is much higher than say %2 inflation. Try putting your money in a savings account. See what that's like. Buffet's argument makes no sense. Inflation hurts all positive capital but reduces debt. Stocks are a better option than most any other option

24 Feb 2018, 06:42 PM

nap.jerry

1. You have to buy into Buffet's ideas. 2. Companies that don't make a profit shouldn't be valued as they are!

24 Feb 2018, 06:46 PM

DonAmp

Seven,

I have to give you some credit for writing this nice article.

I invest only in handful of stocks, [FAANG].

Since January 2, 2018 and To Date: My portfolio up by 155.08%

That's my bottom lines.

1. My grandmother used to say to me... when I get paid; and for each \$1.00 I earned, put \$.50 into savings, or invest wisely. Give \$.25 to helping others. And try to live on \$.25

2. My former Big Boss in NYC used to teach me; For each \$1.00 that I earned, spend only \$.25, and save \$.75 for a raining day.

With the above (2) people who had advised me, I managed to educate my son to finish Law School.

Next month, I'm on my way... Semi-Retiring in South Pacific - Fishing!

I am long ... AMZN (My long-term pension, and would not sell those #, until SS run out of Cash, and hope that will NOT happen soon.)

Cheers!!

24 Feb 2018, 06:55 PM

Holsumdoc

"Since January 2, 2018 and To Date: My portfolio up by 155.08%" If you hold only FAANG stocks, please show me the calculations. Either your date is misplaced, or your math needs to be redone.

25 Feb 2018, 11:09 AM

wwt17

@Holsumdoc,

***"Since January 2, 2018 and To Date: My portfolio up by 155.08%" If you hold only FAANG stocks, please show me the calculations. Either your date is misplaced, or your math needs to be redone.**

Perhaps he's using leverage? Gotten lucky to be leveraged more in AMZN than say FB? IDK. Feels off to me, too.

02 Mar 2018, 04:24 PM

don't know nothing

Well the BO group added that much in one year. Deficits. A country that runs a surplus is taxing people too much.

24 Feb 2018, 07:11 PM

don't know nothing

Ok note I'd not listen to someone who is long GM!

24 Feb 2018, 07:16 PM

kemalefe1

"Ok note I'd not listen to someone who is long GM!"

Amen! Besides, the power of growth trumps all that was said about the effect of higher inflation. For companies like NFLX, growth is 100%. So what if inflation grows from 2% to 4%. NFLX can increase prices far more than that before its customers notice any price change. Can

you say the same about GM?

25 Feb 2018, 02:37 PM

Tonman

The premise that individuals, families, and businesses keeping more of THEIR money is somehow detrimental to the economy is absurd. Deficits can always be offset with less and more efficient government.

24 Feb 2018, 11:36 PM

Clayton Consulting Group, LLC

I believe the premise that "Clearly, with the economy already strong ..." is incorrect.

I believe the economy would not be strong without the deregulation and tax cuts that have occurred over the last year. The economy has been handcuffed for the past 8+ years because of over regulation and excessive corporate taxes. These factors caused corporations to hold higher cash reserves, move money and work abroad, etc.. With deregulation and lower taxes we are seeing, bonuses, higher wages, corporate investment in the U.S. and repatriation of corporate funds. And thus a stronger recovering economy!

25 Feb 2018, 02:23 AM

Doneonbadstreet

Clayton-Corporate profits in 2016 were at a high point, unemployment, and interest rates were low, home values, stock, and bonds were all at a relative high point when he was elected. Juicing an already good economy will result in a surge in interest rates, crashing the bond market, real estate and stocks, as he said, so people like him can swoop in and make a killing.

25 Feb 2018, 11:28 AM

Doneonbadstreet

Tonman-The money is borrowed, it has a cost, it increases the cost of what is already owed, and what you will pay for the tax cut, is far more than you will get. No free lunch.

25 Feb 2018, 02:26 AM

MacAfrican

The higher interest rates and inflation go, the lower goes the net present value of Tesla future losses. Go Tesla!!!!!!

25 Feb 2018, 05:16 AM

ea1122

And the China factory deal goes to -

Not TSLA

Daimler in \$2 bln China investment with BAIC as Geely swoops

REUTERS 5:38 AM ET 2/25/2018

* Daimler, JV partner BAIC to invest \$1.9 bln in Chinese plant

* Chinese rival Geely swoops in on 10 pct Daimler stake

BERLIN, Feb 25 (Reuters) - Daimler and its Chinese partner BAIC plan to invest almost \$2 billion in a state-of-the-art factory in China, underlining their relationship as rival Geely makes a surprise swoop on the German carmaker.

The two will invest more than 11.9 billion yuan (\$1.88 billion) in modernising a plant to build premium Mercedes-Benz cars including electric vehicles, BAIC said in a filing to the Hong Kong Stock Exchange dated Friday and confirmed by Daimler on Sunday.

The chairman of Chinese carmaker Geely said late on Friday he had bought an almost 10 percent stake in Daimler, in a \$9 billion bet to access the Mercedes-Benz owner's technology.

25 Feb 2018, 08:43 AM

LARRYKURTZ

By the way how are those shorts working for you.....Trump in 2020. Best or near best President in the last 100 years

25 Feb 2018, 08:18 AM

Arthur Shatz

Buffett's article from 1977 was written when we had double-digit inflation, which we are not headed towards now. A little inflation will be healthy. The big problem is going to be massive supply in the treasury market. At the same time as Treasury will have to issue new paper to cover the deficits, the Fed will be offloading its balance sheet. The only way this huge increase in supply will be absorbed is with higher yields. That will be a problem for stocks.

25 Feb 2018, 08:48 AM

geocsmith

Debbie Downer. Lower taxes puts money back in the economy. Mr Market spends money much more efficiently than Uncle Sam. I would Rather deal with some inflation and lots of good economic news than higher taxes and a recession.

25 Feb 2018, 08:58 AM

Doneonbadstreet

Geocsmith-Inflation is the worst form of taxation. Tax cuts that result in greater debt and deficit, have to be paid, and they will primarily be paid by debasing the dollar, which reduces the value of every dollar denominated asset you own.

25 Feb 2018, 10:47 AM

edahl273

Tell Jimmy Buffett the govt enterprise causes inflation ...for which he is a grand supporter ...

25 Feb 2018, 09:50 AM

drockmi

AMZN has posted profits for 11 straight quarters with Q4 2017 coming in at a record \$1.9 Billion. I agree with the impact on Tesla and Netflix (not in my portfolio for that reason). However, dig into Amazon a bit more and you'll paint a different picture. As an avid eCommerce entrepreneur with a large portion of revenue from Amazon directly and as someone deeply entrenched within all things digital, I assure you Amazon will continue to surprise you. I'll hold until \$1750 as I do feel it will lose some momentum and other opportunities will likely await. However, I wouldn't be surprised if I'm kicking myself a year from now when it hits \$2500.

25 Feb 2018, 10:00 AM

Seven Corners Capital Management, Contributor

Author's reply » Yes, AMZN is the clearly best of the three. \$3B in 2017 net income, though, is still tiny in comparison with \$726B market cap.

25 Feb 2018, 05:33 PM

PendragonY, Contributor

"Because when stocks are trading at 3.4X book value, as they are today, every \$1 of cash from operations that gets reinvested in said book value should translate into an incremental \$3.40 in market value for the shareholder (versus worth just \$1 when paid out as a dividend, or even less after payment of taxes thereon)."

The problem with this claim is that it ignores the fact that the marginal dollar very well might not be as profitably invested/ While Buffett might be able to do with with BRK (and I do say might as their is some evidence of late that he isn't quite that good either), most companies can only invest so much without wasting it.

25 Feb 2018, 10:05 AM

acquire to retire

Agreed - the book value of a fulfillment center might be similar to that of any other warehouse, but be of greater economic value if owned by AMZN rather than WMT or TGT.

More broadly, the article doesn't seem to allow for any form economic dynamism. For example, the current book value of a coal-fired power plant doesn't reflect the possibility that such a plant might be decommissioned long before its book value is fully depreciated due to future regulatory mandates or the abundance of cheaper alternatives such as natural gas, the book value of a plant that produces internal combustion engines doesn't reflect the possibility that such technology might be outdated within 10 years, etc.

Suppose we accept that equities earned a fairly stable 12% rate of return on book value during the 2+ decades following WWII. Do we have any reason to believe such stability persists over longer periods of time?

25 Feb 2018, 10:53 AM

HiloHawaiian

Sorry, I don't think this is an objective or balanced report. The very first quote says: "CNN reported on..." CNN hasn't "reported" anything resembling news in so long it's absurd. Of course whatever they'd regurgitate would be anti whatever this president does. If you can find a single positive story posted by CNN in the last year, it was surely done in error. Bloomberg hasn't really been much more objective, they represent the establishment ruling class.

These days, when I seek investment info, I seek it from truly independent sources. This author surely isn't one of them...

25 Feb 2018, 10:18 AM

Doneonbadstreet

Hilo-I guess Fox, Breitbart, Drudge and Alex Jones would be objective independent sources?

25 Feb 2018, 10:40 AM

Vandooman

You are jumping to conclusions. He never said that. You can have no time for CNN while having no time for others as well. It was CNN that was quoted. It is no secret that CNN uses the Anti-Trump card for ratings. They don't deny it. If I don't like CNN it doesn't mean I like Fox. It does seem odd that the left fulminates over one right leaning news channel when all the countless others lean left. Must be the ratings.

25 Feb 2018, 01:18 PM

Seven Corners Capital Management, Contributor

Author's reply » "Sorry, I don't think this is an objective or balanced report. The very first quote says: "CNN reported on...""

The article is not meant to be partisan - it's not pro- or anti- tax cuts or Trump or Dems or Repubs - that's all beside the point (citing CNN was a random choice--could have picked WSJ or some other news source reporting similar content, except WSJ is behind a paywall - see below).

Is it really so controversial to suggest that inflation and interest rates are likely to increase from historic lows seen since the last financial crisis? That's the underlying premise of the article.

WSJ Heard on the Street from 2/14: Markets Be Damned, Fed Has Inflation to Worry About

Rising inflation means Fed may raise rates more than expected, even if markets suffer

By Justin Lahart

February 14, 2018

With the economy throwing off more heat, the biggest risk for the Federal Reserve is that it falls behind on raising interest rates. And if investors suffer as a result? So be it.

<http://on.wsj.com/2sW7got>

25 Feb 2018, 05:22 PM

User 24352943

It's amazing how many thin-skinned republicans see Trump-criticizing politics in this article. I'm an independent and see nothing political at all here.

25 Feb 2018, 10:33 AM

Seven Corners Capital Management, Contributor

Author's reply » There's no political intent with the article - obviously people who have a political axe to grind go for the "ready, fire, aim" routine instead of actually reading the whole thing. Besides, who in their right mind would decide to put a political article (disguised as an investment article) on SA? What purpose would that serve?

25 Feb 2018, 05:27 PM

Stephen Slevinski

The real robber of the equity of non FANG stocks are the executives

The executive stock options and share buy backs are constantly enriching the top CEOs at the expense of the shareholders

When a stock option is underwater, they reprice it, so the executive cleans up at the expense of the ordinary stockholder

I have 100,000 shares of CTL it pays nearly a 12 dividend

One of the top executives bought recently bought 100,000 shares for himself, at market price

This gives me confidence!

I also own PFE, but its executive option plans, and share buy backs, do not seem, in my opinion, to benefit the shareholders

25 Feb 2018, 11:02 AM

Vandooman

CTL is a dog. Some of the best analysts have a SELL rating. CEO packages have little effect on shareholders who usually have to win for the CEO to get the benefit. Go yield shopping and what do you expect? The stock is down by 2/3 over the last 4 years in a bull market. Why on Earth did you buy it? The yield I expect.

25 Feb 2018, 01:13 PM

HiloHawaiian

@Done. Wow, the last 2 reactions say more about you folks than me! I'm sorry, I didn't say that, did I? I simply said, which has been widely documented by media analysis reports, CNN isn't a trusted news source anymore. Why their ratings have bottomed. So, I skip it. Bloomberg, I read with healthy skepticism.

Drudge, LOL, all he does is link to other folks new stories, but he uses many foreign sources, which, at times, can be more objective when reporting news about America. AJ & B, I have no idea, never been there.

I'm on-partisan. I could give a rat about political parties. I try and find accurate investment information. This article IMHO, is rubbish...

25 Feb 2018, 11:03 AM

Doneonbadstreet

Hilo-What are your top three independent, unbiased news sources?

25 Feb 2018, 12:09 PM

Vandooman

is there any such thing?

25 Feb 2018, 01:10 PM

Doneonbadstreet

Vandooman-Not likely, so the best we can do is read across the spectrum.

25 Feb 2018, 01:44 PM

boonestreet

Red Flag! quoting CNN. Thanks to all of the contributors for a more interesting insight.

25 Feb 2018, 11:22 AM

Seven Corners Capital Management, Contributor

Author's reply » Markets Be Damned, Fed Has Inflation to Worry About

Rising inflation means Fed may raise rates more than expected, even if markets suffer

By Justin Lahart

February 14, 2018

With the economy throwing off more heat, the biggest risk for the Federal Reserve is that it falls behind on raising interest rates. And if investors suffer as a result? So be it.

<http://on.wsj.com/2sW7got>

25 Feb 2018, 05:31 PM

bcbucks

I'm impressed the author will respond to comments about his article.

25 Feb 2018, 12:20 PM

Farid_FX

Good read but over-complicates what inflation will do to dollar returns. Yes dollar returns will be worth less as inflation rises and that is true for any type of investment. Also looking at inflation while holding everything constant results in missing the whole picture. Selling AMZN, NFLX or any other stock of a company that is in a real business just because we expect inflation to rise would not be wise. That will be different for bonds and other fixed income instruments.

25 Feb 2018, 12:55 PM

Vandooman

The CBO has seldom been right in the past so why should it be right in the future. The sky is not falling. If the economy grows fast we will be fine. If it does not we will have to cut spending. You would think that our economic policy was brilliant the last 12 years. We ran up the debt without the tax cuts.

More and better jobs means more people pay taxes. Companies are less motivated to shelter from lower taxes. Welfare rolls should shrink and we may have less fraud under the present administration. Nothing like watching food stamps used to buy beer. Our prison occupancy is falling. Companies are willing to pay US taxes rather than hoard money offshore. Small business owners are expanding with better cashflow. More investors will take their capital gains and pay taxes now that they won't be clobbered by Alternative Minimum Tax. More investors will invest in dividend paying companies and pay taxes for the same reason. Wages are going to rise.

The CBO knows squat about how this will play out. People and companies will be motivated to operate differently. We will see where it goes but I don't buy the Chicken Little principle. Business owners are really pumped by the tax changes. I am optimistic about the next few years so long as the Democrats don't take over. That could kill it.

25 Feb 2018, 01:08 PM

careful investor 1

The congressional budget office is always correct. They also calculated GDP growth of 2%. We're way above that now and accelerating.

Secondly the national debt is set to go up 9T in 10 years if we do nothing.

If the economy grows at 3+% and govt restrains spending a little, the debt will start going down.

25 Feb 2018, 02:37 PM

smurf

Investing in inflationary times is a no-brainer. I was investing in the late 70s/early 80s when CDs and Money Market instruments were yielding double digits. Quality bonds were dirt cheap and paying double digit interest, too.

In inflationary times, avoid stocks. Invest in the above and SWAN. Not brain surgery.

25 Feb 2018, 03:24 PM

Doneonbadstreet

Smurf-Moneymarket accounts were paying double digits because the value of the dollar was dropping even more.

25 Feb 2018, 05:24 PM

DonAmp

Thanks again for your writing, I have my own method of success and for long-term pension.

F = 3.87%

A = 3.71%

A = 28.26%

N = 48.95%

G = 7.68%

FANNG Reserved = 62.61% [Cash]

Total Port = 155.08%

End of Closing Adj. Feb. 23, 2018

25 Feb 2018, 05:09 PM

User 36466666

maybe someone already mentioned this (I didn't read all 300+ responses), but there were no companies like AMZN, TSLA, and NFLX in the '70's when Buffett wrote his article, so it seems fair to question the obsession with price/book ratios...e.g. how can one reasonably correlate NFLX's book value to its market value? They make and distribute bits.

25 Feb 2018, 10:19 PM

Doneonbadstreet

User 36466666-There were companies in the 70's that grew like Amazon, Netflix and Tsla, Amazon mostly sells physical stuff, Tsla sells cars, not bits. Nflx sells entertainment, or you could call that bits.

25 Feb 2018, 11:02 PM

ssfranny

NFLX doesn't sell anything just a few shows that millenials watch again watch what happens when DIS pulls plug. It's 30-40% of content.

Jeez this bloated POS up again today man it's gonna fall hard when it does.

26 Feb 2018, 10:30 AM

Doneonbadstreet

Ssfranny-We watch Nflx mostly and some Amazon because they lack commercials, and while it is hard to find a movie or documentary worth seeing, we don't watch TV a lot, and who wants to pay Comcast or ATT 100-200 a month, to be bombarded by commercials, and still have a hard time finding something watchable.

It seems like 70% of what is on TV involves murder. Who needs that? Btw, we are not millenials, and rarely find a series worth watching either.

26 Feb 2018, 11:23 AM

TomasViewPoint

ssfranny

Content on NFLX is better than TV and it's only \$10 per month.

Really don't care about DIS but if I did I would pay them \$10 per month for their stuff as well and still be way ahead of the game paying cable at \$200 per month.

26 Feb 2018, 12:08 PM

coolsoupy

Tesla sells a dream not cars !!!!!!!!

01 Mar 2018, 07:53 PM

Good Company

What a terrible study. Stocks automatically correct for inflation, duh

26 Feb 2018, 05:22 AM

ssfranny

It's funny someone mentions that higher rates will affect bloated tech stocks and 329 responses lot of people living in denial..

26 Feb 2018, 10:29 AM

priapnoir@yahoo.com

@ ss franny, We are all "Egyptian" now ... Lol

26 Feb 2018, 11:19 AM

yellowpage

We shouldn't listen to someone who's down 40+% YTD. It's that simple.

26 Feb 2018, 11:22 AM

Southsider1

It seems like we cannot consider the dynamic effects on the economy of the tax cut (higher GDP) but must worry about the dynamic effects of deficit spending. Having lived in the 60s, 70s, and 80s I know that hope for economic prosperity was achieved by Reagan's deficit budgets. But to worry when a 30 year bond is slightly over 3% doesn't make sense to me.

Housing mortgage rates are still very low historically. Once home buyers get used to them I don't see 6-7% being a problem. There is still slack in the mainstream economy and workers are available. Companies need to increase training of workers to meet their need for specialized skills.

26 Feb 2018, 02:10 PM

Doneonbadstreet

Southsider-You don't think a 50% increase in mortgage rate costs will drive home sales and values down substantially? There will be a similar impact on stocks, bonds, and consumer spending, which is 70% of our economy.

26 Feb 2018, 06:32 PM

ScroogeMcDuck69

But it's different this time, especially for Amazon. The time tested rules of finance neither apply to this market nor Amazon. Up, up, and away. Valuations are so yesterday....

26 Feb 2018, 02:38 PM

User 23079023

Suuuure... this time it's different

27 Feb 2018, 12:27 AM

Some Lazy Bum

I think Trump might be the largest cause of inflation if more of this <http://n.pr/2t9asgw> occurs.

01 Mar 2018, 04:07 PM

yellowpage

NFLX crossed \$300, OP must be burning hot right now.

03 Mar 2018, 02:58 PM
