WCM February Newsletter

DID YOU KNOW

Social Engineering:
How cybercriminals try to manipulate you and how to stop them.

MONTHLY COMMENTARY

Tax Stats

“A nation trying to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."
-Winston Churchill-

DOING GOOD TOGETHER

Look to our Newsletters over the next couple of months for opportunities to join us in making a difference.

Thank you for the continued trust you place in us and our office. Our practice continues to grow because of you. Your referrals are the best compliment that you can give.

DID YOU KNOW ?

Social Engineering: How cybercriminals try to manipulate you and how to stop them –

Threats are becoming harder to recognize. Know the signs of a social engineering attack.

Threat actors are systematically improving social engineering attacks, making them convincing and harder to detect. Successful social engineering attacks lead to identity theft, malware attacks, ransomware attacks, reputational damage, data theft and/or service disruption. We ask that you take steps to prepare and protect yourself against social engineering attempts. Become familiar with the common cybercriminal tactics below, and the ways in which to protect yourself and the firm.

What is social engineering?

Social engineering is a term used to describe a variety of cyberattacks that use psychological tactics to manipulate you into giving up your confidential information, downloading malware, or transferring money and assets. Social engineering attacks compel unsuspecting people to act using powerful motivations, like service to others, money, love, and fear.

Don't engage

If you receive unsolicited communication, especially from an unknown source, it's best not to engage. Do not respond to emails, click links or attachments, or answer calls from unknown callers.

Verify the sender

Verify the sender's identity, contact information, and the message's authenticity before opening links or attachments or providing information. Look for misspellings, grammatical errors, or…

Cool down

Cool down the urgency. Many social engineering attacks rely on creating a sense of urgency to prompt you to act. Be skeptical of communication that requires immediate action or threatens severe…

How is AI making social engineering attempts harder to detect?

Advancements in Artificial Intelligence (AI) have changed the landscape of social engineering and make it harder to recognize a threat. For example, threat actors may use AI to create realistic, yet fake emails, texts, calls, images, videos, or voices to fool even the most careful and vigilant person.

Tax Stats

"A nation trying to tax itself into prosperity is like a man stanind in a bucket and trying to lift himself up by the handle."

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By Mark Lazar MBA, CFP®

Mark Lazar is an independent writer with Pathway to Prosperity and is not affiliated with Raymond James. Views expressed by this writer are the current opinions of this author and not necessarily those of Raymond James & Associates.

In a recent speech, President Joe Biden asserted *there are a thousand billionaires in the US, with an average federal tax rate of 8.5%*. To us boomers, who grew up during a time when four children, one car, and single-income households were the norm, the dream of becoming a millionaire was elusive, at best, and the notion of a billionaire—a thousand million—was simply beyond comprehension.

Item	YTD Change
Dow Jones Ind Avg	8.46%
S&P 500 Index	18.97%
EAFE Foreign Index	9.31%
Emerging Market Index	3.21%
Barclays Agg Bond Index	2.51%
10-Year Inflation Forecast	2.22
Unemployment Rate	3.9

** Market index data as of 01/31/2024 (*The Stock Indexes mentioned are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.)*

Income Rank	Share of Income	Avg Tax Rate	% of Tax Burden	Avg Taxes Paid
Top 1%	22%	26%	42%	$458,894
Top 5%	38%	22%	63%	$136,091
Top 10%	50%	20%	74%	$79,897
Top 25%	71%	17%	89%	$38,396
Top 50%	90%	15%	98%	$21,187
Bottom 50%	10%	3%	2%	$504

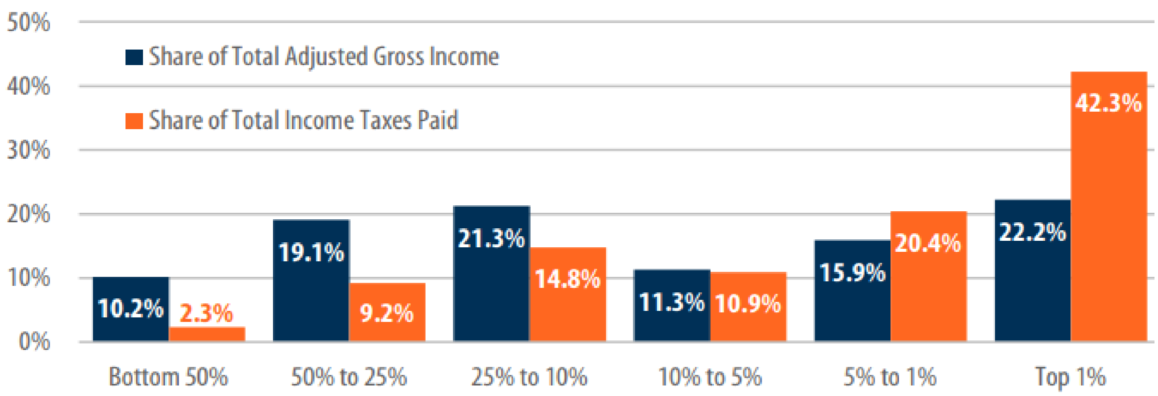
Source: Tax Foundation

According to the most recent data, there are currently 735 billionaires in the country, so perhaps the President rounded up. But do the ultra-rich really enjoy a single-digit income tax rate? Let's look at the numbers.

According to the most recent (2020) data from the IRS, the average federal tax rate by income breaks down as follows:

To qualify as a 1%'er in 2020 required an AGI ≥ $2.8 million, and there were 1.57 million individual returns that equaled or exceeded that amount. With just over 700 billionaires in the country, it stands to reason they likely paid more than 26%. For example, in 2021 Elon Musk reported an $12 billion tax liability. Conversely, the bottom 20% of tax filers had a *negative* tax rate, meaning they received a refund greater than their withholdings.

The chart below illustrates the differential one would expect to see associated with a progressive tax system. Interestingly, since 2001 the share of income tax paid by the rich has increased from 33% to 42%, while the share paid by the bottom 50% has dropped from 5% to 2%.



Source: First Trust Advisors

Now that we know where the federal government gets its loot, let's examine the other half of the income statement; expenses. According to the Congressional Budget Office, over the course of the next decade, US federal expenditures will exceed revenues by $20.3 trillion, the national debt will top $54 trillion, and annual net interest will surpass $1.4 trillion per year.

The standard metric by which sovereign debt levels are measured is debt/GDP. It's uncertain when, exactly, this became the yardstick by which to gauge fiscal responsibility, but it is a poor one. An individual or business can be in a position where liabilities exceed assets, yet still pay the bills. However, when payables exceed cashflow, it's game over. To that point, federal tax revenues are currently $4.8T and expenditures are $6.4T. Of that $6.4T, net interest is $745B, or nearly one-third of revenue. By 2033 debt service will exceed 40% of federal revenue.

To put this into perspective, in order to qualify for a manually underwritten conforming Fannie/Freddie home loan, the maximum debt-to-income (DTI) ratio is 36%. By 2025 estimated federal DTI (debt service/tax revenues) will be 35.4%, then quickly surpasses 36%. Ironically, Uncle Sam would be unable to qualify for a government loan.

US federal tax revenues exceed the gross domestic product of Germany, yet we haven't had a balanced budget in over two decades, and the national debt is currently over $34T. We don't have a revenue problem but, rather, a spending problem. Even John Maynard Keynes—who advocated for deficit spending during times of economic disequilibrium—would be appalled by this level of fiscal malfeasance. Despite the finger-pointing, both parties are culpable for this mess, and it won't change until voters finally stop politicians from bribing the public with the public's money.

The federal budgeting process is flawed to its very core and there are perverse incentives for legislators to be profligate as opposed to prudent. Unlike the private sector, where the Darwinian consequence for failure is extinction, government largesse is rewarded with ever-increasing funding for agencies, and increased votes for spendthrift politicians. Is it any wonder Washington bureaucrats are loathe to discuss spending cuts, and any mention of lower tax rates is always and everywhere attacked as *tax cuts for the rich*?

As Keynes opined, “taxation may be so high as to defeat its objective.” Meaning that the goal of taxation should be to raise sufficient revenue as needed to maintain a free and orderly society. But as Dr. Thomas Sowell correctly points out in his article, Trickle Down Theory, virtually every scheme that increased tax rates was inevitably followed by lower federal revenues, whereby the opposite occurred when rates were reduced. Tax policy should be neither a tool for redistribution of wealth, nor a cudgel to punish the rich, but rather a thoughtful mechanism designed to maximize *both* economic growth and revenue. History has been crystal clear in that the more the government attempts to create an equal outcome, the result is a poorer and less free society.

Mark Lazar, MBA
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Pathway to Prosperity

WCM Team This Month

Stan

Valentines' Day dinner at the Goodell home.

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Rees

Rees and Lisa out to eat!

John

John and Shawn at Mardi Gras in New Orleans this month.

Nicola

Nicola with her sweet little girls.

Jessica

Matt

Matt and the girls out enjoying winter.

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