November 2022

# Wasatch Capital Management Newsletter

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## WCM Newsletter


Happy Thanksgiving to everyone! We appreciate all of you and hope you get to spend time with loved ones all around.

We wanted to take a moment to recognize **Stan Goodell** being named to the Raymond James Chairmans Council.

Stan was named as a leader among Raymond James financial advisors, whose work is defined by his dedication to his clients and their financial well-being. This recognition is only for the top 2% of all Raymond James Advisors. With over 8,000 advisors across the country, this is not easily obtained.

This is a major accomplishment that is only possible with hard work but with clients like you and for your putting your faith in Stan and Wasatch Capital Management Team.

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.


"Ben Franklin said, 'An investment in knowledge pays the best interest.' Let's put 30% of your portfolio into publishing and 30% into education and 40% into research."

**DID YOU KNOW ?**

### Year End Planning?

Are you ready to wrap up 2022? As you take a moment to look at your own financial situation, there may still be some last minute things you can do to maximize your situation.

Do you have to take a Required Minimum Distribution (**RMD**) from your IRA? Do you give to charity/non-profits?

Qualified Charitable Distributions (**QCD**) allow you to give to your church or favorite charities in a more tax efficient way. If you want to give using a QCD we are here to help.

**Giving appreciated Stock** could also be a more tax efficient way to give charitably to causes that you care about. If you have a low cost basis security or a security that you do not know the coast basis, giving that to a Donor Advised Fund or directly to a Charity/Non-Profit can  also help maximize your gift with even more tax benefit to you.

**Your Financial Advisor can help you plan for If you have questions or need any assistance, please contact us at any time. As always, we look forward to speaking with you.**

# Public Finance 101 -Article by Mark Lazar

*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.*

***Nobody spends somebody else's money as carefully as he spends his own.***
**-Milton Friedman-**

| Item | YTD Change |
|---|---|
| Dow Jones Ind Avg | -9.92% |
| S&P 500 Index | -18.76% |
| EAFE Foreign Index | -25.09% |
| Emerging Market Index | -31.16% |
| Barclays Agg Bond Index | -15.72% |
| 10-Year Inflation Forecast | 2.52% |
| Unemployment Rate | 3.5% |

**Market index data as of 10/31/2022*

Put simply, public finance is the management of government revenues, expenditures, and debt. Washington bureaucrats would have you believe that managing Uncle Sam's pocketbook is somehow different than personal or corporate finance. It ain't. But it is more complex. A lot more.

Whereas a person might report wage and/or investment income, and a company sales proceeds, not surprisingly government revenue is derived primarily from taxes. The breakdown of federal revenues are as follows:

| Source | Percent |
|---|---|
| Individual taxes | 54% |
| Payroll taxes | 30% |
| Corporate taxes | 9% |
| Excise taxes | 3% |
| Other taxes | 3% |
| Customs & duties | 2% |

*Fiscal Data-Treasury.gov

No different than personal or corporate finance, sound, *responsible* government—local, state, and national—finance begins with a budget. Apart from Vermont, every state has some form of balanced budget provision, obliging state officials to spend no more than they collect. The federal government, however, has no such requirement, and budget deficits have become not just the norm, but acceptable and expected.

The federal budget process is a lengthy, convoluted, ponderous affair that begins with the President submitting a spending proposal for the following fiscal year. Due the first Monday in February, the President's proposal is referred to the House and Senate Budget Committees as well as the Congressional Budget Office (CBO). Budget ratification is due June 30, but that rarely happens anymore. Within the six weeks following submission the various congressional committees report to the House and Senate outlining how their respective spending and revenue proposals will differ from the President's budget. After each budget committee compiles this information, Congress is to pass a budget resolution by April 15, and approve the twelve discretionary spending bills that fund the government for the forthcoming fiscal year no later than October 1.

Federal agencies that don't have appropriations by October 1 are funded under a continuing resolution (CR), a temporary measure that limits spending to current levels but provides Congress with additional time. CRs typically cover spending for only part of the year, but Congress may extend them to cover the entire fiscal year.

If unable to achieve the 60 Senate votes required for approval, mandatory spending items can be pushed through via budget reconciliation. Reconciliation bills can address spending, revenue, and the federal debt limit. Senate reconciliation bills aren't subject to a filibuster but the scope of amendments is limited. Furthermore, The Byrd Rule prohibits reconciliation bills from increasing the federal deficit (after a ten-year period), thus revenue-negative items often sunset within ten years

Did I mention it was complicated? Now might be a good time to define some of the oft used vernacular when waxing government finance:

- **National debt**–At $31 trillion and counting, the national debt is the total amount of money owed by the federal government to its creditors (holders of US Treasury securities), which include the US government & government agencies (39%), foreign ownership (24%), mutual funds (10%), banks (6%), state and local government (5%), pension funds (4%), and Other (11%). Nearly $7T of the outstanding debt is intragovernmental debt, like the Social Security Trust Fund.
- **Federal deficit**–Is the difference between revenues collected and dollars spent. For example, in 2021 federal tax receipts reached a record $4T, however Uncle Sam spent $6.8T. Hence, last year's budget deficit was $2.8T. This year the deficit is tracking *just* $1.4T, or a 50% deficit reduction. Not surprisingly policymakers are crowing about *the largest deficit reduction in US history*. Considering 2021 witnessed the largest deficit ever recorded and the highest (relative to GDP) since WWII, this doesn't seem particularly boast-worthy.
- **Debt to GDP**–The US economy will tally ~$25.7T this year, thus debt-to-GDP—the accepted metric for assessing a nation's debt picture—is 121%. By comparison, in 1980 debt-to-GDP was 34.7%.
- **Debt service**–Is the total interest owed (annually) to holders of US debt/ Treasuries, and is currently $545B, or $4,200 per household. Debt-to-GDP has increased 348% over the last four decades. How/why, you might ask? Falling interest rates. In 1980 US debt service was 5.8% of the outstanding amount, whereas today that number has fallen to 1.74%. Record low interest rates have enabled profligate politicians, on both sides, to spend taxpayers' money like the proverbial drunken sailor.

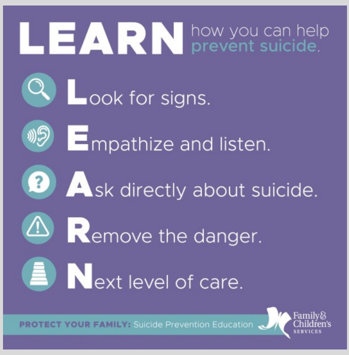
Federal spending is broken down as follows: 73% is mandatory 23% is discretionary, and 4% is net interest. Mandatory spending, which includes Social Security, Medicare, welfare, public housing, and food programs, to name a few, is the elephant in the room. Politicians are terrified to even utter the words "budget reduction," so for the sake of prevailing populism and political self-interest instead focus on increasing taxes. But whether the money comes from corporate coffers—which are simply a line-item expense on a corporate P&L, and must be factored into required profit margins and ultimately retail prices—or your paycheck, the end result is the same; slower economic growth, and a reduction in the standard of living.

Eventually policymakers will either need to manage public funds judiciously (i.e., fiscal restraint) or the market will force them to. Case in point; since its peak in 2008 Greece's economy (and prosperity of its citizens) has collapsed by 39%. You would think the insolvency of Greece would serve as a cautionary tale to spendthrift governments, but it hasn't. To quote Thomas Jefferson, "I would be willing to depend on (an amendment to the Constitution) that alone for the reduction of the administration of our government; an additional article taking from the Federal Government the power of borrowing." To Jefferson's point, absent an absolute constitutional requirement to balance the budget, lawmakers will undoubtedly keep giving us more of the same.

Mark Lazar, MBA
CERTIFIED FINANCIAL PLANNER™
Pathway to Prosperity

**Doing good together**

**As we have done in years past, our office will be participating in a Christmas Toy Drive. Thank you to everyone that participated in years past. If you feel inclined, we encourage you to join us again this year.**

## WCM Team This Month

### Matt

Matt and Sam at the Acropolis in Athens, Greece during their Honeymoon

### Stan

Emergency family gathering to CO but lots of smiles after receiving some good news. Families are great!

### Rees

Rees golfing with neigh-bor legends at Wasatch Mountain

### John

John and friends attending MN Vikings game over Halloween

### Nicola

Nicola and son at LOVE park in Philadelphia


## John

John and Lisa Clower with author Brad Meltzer at the Ogden School Foundation annual authors night.

## Jon

Jon and the kids with Jon's sister Madison at the Pumpkin Patch


## Reed

Reed and Lisa Grant at the Cliffs of Moher in Ireland early this year.  The wind is blustery there

## Jessica

Jessica and her husband Brian, fly fishing on the Madison River in Montana

## Susan

Susan and family at a recent wedding in Idaho.

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