Together
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People like certainty and they will go to great lengths to get it. During their “certainty” quest, people will come across many theories. All too often these theories are traps. These theories provide solutions when in fact there might not be one. These theories, no matter the validity, provide relief and sense of regaining control. Human behavior wants to grasp onto these theories and hold on tight. This is normal. At this point, I probably have a few nodding heads.

Knowing that this response can lead to unsuccessful outcomes, how can we avoid falling into this certainty seeking trap? Experts say awareness is the key to success; specifically, early awareness. For example, it is helpful to know stock markets are volatile before investing versus learning that in the middle of a big downturn. Again, probably more nodding heads as we think of an example of this in our lives.

Uncertainty is all around us. I think going through an example is helpful to understanding where there might be holes in all our thinking. At worst, you reach the same decision. At best, you find a different way to look at the same situation and avoid making a big mistake. Here is a helpful framework for making better decisions. We have divided the framework into three parts:

1. Start in the middle not at the extremes. The future is less certain than we initially think or the news would have us believe. We have all experienced this at some time in our lives. What might seem 100% or 0% certain, can end very differently. It’s best to acknowledge that upfront.
2. Establish the outside view
    a. The outside view evaluates the big picture. Has something similar occurred in the past and, if so, what was the result?
3. Evaluate the inside view
    a. The inside view then looks at the specific situation. What is potentially unique about it and would it have a different result from the outside view?

With these tools at our disposal, let’s evaluate the current federal spending debate.

More Stimulus: Is this going to happen?

1. It cannot be known with complete confidence whether stimulus will happen or even how much. Is it trillions or billions of dollars? There are too many unknown variables. There is much we still do not know about the virus and about the parties who are going to be making the decision to move forward with it.
2. The outside view says the government typically likes to debate at length the various options. Quick action is not usually the answer unless the situation appears to be dire. I believe there is a word for this: politicking. Sometimes the stock market can be the force to cause action. Stock market prices decreasing at an increasing rate usually forces some action.

3. The inside view says all the current parties have expressed interest in more stimulus spending. The debate is over when, how much, and to whom. However, the current politicians have not yet deemed this a dire situation at the current moment. If the virus continues to hamper business economics, that view probably shifts (and possibly quickly).

Conclusion: We think more stimulus is likely to happen. Given our diversified, planned approach we are less concerned with the actual day the stimulus package is passed. The long-term approach should benefit if stimulus happens.

More Stimulus: Will this help investment portfolios?

1. The stimulus will have wide ranging effects. It is not likely that the effects will be felt evenly through the economy. Some companies will benefit greatly from the stimulus. Not knowing who, when, and how much stimulus occurs, makes placing big bets with few companies a risky proposition.
2. Economies rely on consumer and government spending to grow. If consumers are reluctant to spend and the government increases their spending accordingly, the economy should at the very least contract less than without it and potentially, if enough, stabilize the economy in the short-term. The stabilization should promote more stable overall stock market prices.
3. Companies have been affected differently by the recent economic events. Guessing which ones will benefit more than others is hard. Getting the right answer with 100% certainty would be lucky. Diversified portfolios help ensure that your portfolio participates in the companies that continue to perform well and those that are fortunate to gain from this stimulus.

Conclusion: We believe diversified portfolios should allow for participation in the economic gains received by the private sector if more stimulus is distributed by the government.

More Stimulus: High inflation?

1. The usual first argument against more federal government spending is inflation. Could this happen? Yes. Does increased spending always cause more inflation. No. To simplify things, inflation is caused from demand exceeding supply. Any other definition must include that premise somewhere.
2. Looking at history, there have been periods of time where a lot of debt was issued, but inflation never occurred. I tend to be in the camp that says we know much less than we think about the cause of inflation. Even top line inflation that is reported can be different for every individual depending on the goods and services being used.
3. The US government reporting year is October 1 – September 30 each year. Thus, their reporting year was just completed. Reading this report, you can get better understanding of what was spent and how it was funded. To summarize, the government took in $3.4 trillion from primarily taxes. In turn, they spend $6.5 trillion. Subtract the difference and this is where you read reports about the government running a $3.1 trillion deficit. They spent $3.1 trillion more than they received. This was $1.7 trillion more than they

budgeted. Majority of the $1.7 trillion was related to:

a. $577 billion: Small business loans
b. $450 billion: Taxpayer income tax relief
c. $441 billion: Federal and state unemployment benefits
d. $181 billion: Department of Health and Human Services

Conclusion: Increased spending and debt does not necessarily lead to immediate inflation. The 2008-2009 financial crisis taught us that. This crisis is not the same so it is not a given that inflation will remain tepid. The stimulus amount and virus effects will ultimately help determine the path of inflation. As we sit here today, overall inflation is not the concern.

More Stimulus: Higher taxes?

1. The federal government cannot spend without limitation. Yes, they own money printing presses so they can spend more than households or corporations. However, there are limits to the deficit amounts that can be incurred. One way to reduce deficits is to increase taxes collected.
2. Taxes are not an easy topic to discuss. It's easy to generalize, but difficult to agree on details. Foundationally, taxes have limits as to how high they will go. The reason being this: The government is going to be able to provide more services when the nation's income as a whole rises. For example, collecting 20% taxes from growing $20 trillion economy is better than taking 40% of $10 trillion contracting economy. Although at a lower rate, the former scenario will provide more over the long-term. That does not mean there cannot be ebbs and flows along the way, but for the good of everyone the economy needs to keep growing.
3. The Democrats have proposed increasing taxes if they are in control of the White House, Senate and House. They have not made that a secret. However, the details seem largely in doubt. Tax law changes never treat everyone fairly, so there certainly will be winners and losers. This time will be no different. Tax planning will continue to be important. Tax intelligent decisions could be worth more in the coming months ahead.

Conclusion: Higher taxes could be on the horizon for some. It is important to know how these changes could affect you and your individual goals.

Moving Forward

The nation continues to be at odds with each other. In the coming days, this might only amplify. As this plays out, maybe think of the groups that bring joy into your lives. I recently began coaching at a local high school. The decision was based on the hope that I could be a mentor for these young men. We recently began ending our gatherings with the saying "Together". A simple reminder that this group is going to be the best they can be, not for themselves, but for each other.

Our hope is that McCarthy Grittinger Financial Group team members and clients feel a sense of that togetherness. This could be a long winter, but knowing you are a part of something helps get you through these times. Our team fires up their computers each morning (at home or at the office) with that sense of commitment to each other and our clients. We will continue to reach out, if for nothing else, being a caring voice on the other end. Please do not hesitate to do the same.

We will get through whatever the next few days, weeks, or months have in store for us. Together we will win (TW3).

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