## **TD Wealth**

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# Turbulent Times Ahead...



If we look back in history, the months of September and October have historically not been very kind to stock market investors. It could be a combination of psychology and economic indicators, but the fact remains that the months of September and October are more volatile and have more "market bottoms" than any other two months of the year. This year, there are a couple of events that could make the fall interesting for investors:

## 1. U.S. Debt Ceiling Reached.

Up until 1917, every time the U.S. Treasury wanted to issue debt, it would have to ask Congress for permission. Recognizing the inefficiency of this, the 1917 Liberty Bond Act was created and it changed the way in which the Treasury operated. They no longer had to go to Congress every time they wanted to issue debt. Congress approved an amount which represented the total amount of debt that U.S. could have outstanding – virtually creating a credit limit. The Treasury can continue to issue debt to fund the spending that Congress already approved until the credit limit is reached. Once reached, they would have to go back to Congress to ask for an increase. If an increase is not granted, the government literally runs out of money and cannot pay its bills (social security, interest payments, Medicare, military wages etc.) Intuitively, you would think that the increase would merely be a formality since you have a Republicancontrolled Congress and a Republican president. However, there is a faction of the Republican Party that will not agree to an increase without a cut in expenditures which prevents them from getting the necessary votes for the increase. Republicans will have to reach across the floor to get some support from the Democrats to increase the limit. The Democrats will, however, demand tax increases on the wealthy

and greater spending on social programs. You can see how this can get quite political. Although the current debt ceiling (19.808 Trillion) has been reached, the U.S. government is still able to pay its bills due to tax revenue and cash on hand. It is estimated by some that these funds will run out by early October. At some point, a compromise will be reached and the debt ceiling will be raised, but not without a lot of drama and volatility for investors.

## 2. Geopolitical Risks.

The tensions between North Korea and the rest of the world may continue to intensify. I felt that the situation with North Korea launching a missile over Japan was diffused rather guickly. According to the Associated Press, after the missile was launched by North Korea, the U.S. and South Korea started conducting bombing drills near the South Korean peninsula. At the best of times, geopolitical risks are difficult to hedge against. North Korea has managed to isolate itself from the rest of the world which makes things even more challenging. The optimist in me believes that diplomacy will ultimately prevail, but not without some tense moments. To complicate matters, China has strong ties to North Korea. As the Trump administration deals with China on trade relations, their ties to North Korea will only create more headline news and angst for investors.

### 3. Hurricane Harvey's Economic Impact.

Roughly 7 million people live in Houston and it is the fourth largest city in the U.S. It is the largest center for chemical companies and one of the largest refining areas in the U.S. A shutdown of a city this size is sure to have an economic impact on the overall economy. It's devastating to watch people being displaced from their home not knowing when they will go back. From an economic perspective, when people are not going about their day to day lives, the national economy suffers. Until refineries are able to function normally, gasoline prices are sure to stay elevated across the country. This is taxing on the U.S. economy. As analysts and economists return from summer holidays and calculate the impact of Hurricane Harvey, the decline in U.S. growth is sure to make headlines.

Some, or all, of these events are bound to have an impact on the volatility of the stock market this fall. We are positioning our portfolios ahead of these events to hopefully take advantage of mispriced assets. Volatility can create opportunities.

### **Proposed Tax Changes for Private Companies**

This past summer, the Minister of Finance proposed some potential tax changes with respect to private companies. There are two main areas of focus:

- Distribution of dividends to family members from an owner of a corporation: the government has stated that they will look at the reasonable test – how much work was performed for the compensation paid. They also specifically mentioned 18-24 year olds. Unless you can substantiate the income, the dividends paid would be taxed at the highest marginal rates.
- Higher taxes on funds left in corporations: many individuals who own private companies opt to keep excess funds after paying corporate tax (approximately 13%) in the corporation rather than take it out and pay personal tax. The government feels that this is an unfair advantage compared to an individual who has all of their income taxed and has fewer dollars to invest after-tax. It is unclear how this will be implemented. They have indicated that changes will be legislated after a 75 day consultative period which will be sometime in early October. I don't think it's advisable to make any changes until we have more details. Based on the tone of the Minister of Finance and the most recent comments made by Prime Minster Trudeau, we can assume that tax rates are going up. Once we have more details, financial and retirement plans will need to be reviewed.

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Sources: https://www.thebalance.com/u-s-debt-ceiling-why-it-matters-past-crises-3305868 http://www.syracuse.com/u-s-news/index.ssf/2017/08/north\_korea\_bombers\_fighters.html. The information contained herein has been provided by Ashit Dattani, Portfolio Manager & Investment Advisor and is for information purposes only. The information has been drawn from sources believed to be reliable. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance. Certain statements in this document may contain forward-looking statements ("FLS") that are predictive in nature and may include words such as "expects", "anticipates", "intends", "believes", "estimates" and similar forward-looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest and foreign exchange rates, equity and capital markets, the general business environment, assuming no changes to tax or other laws or government regulation or catastrophic events. Expectations and projections and projections about future events are inherently subject to risks and uncertainties, which may be unforeseeable. Such expectations and projections may be incorrect in the future. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied in any FLS. A number of important factors including those factors set out above can contribute to these digressions. You should avoid placing any reliance on FLS. The Dattani Wealth Advisory Group consists of Ashit Dattani, Portfolio Manager & Investment Advisor, Borzo Salehi, Associate Investment Advisor, Kristen Vilbrunt, Associate Investment Advisor, Cristen Sacciate. The Dattani Wealth Advisory Group consists of Ashit Dattani, Portfolio Manager & Investment Advisor, Borzo Salehi, Associate Investment Advisor, Kristen V