

07.15.2025 Market Update – One Big Beautiful Update

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A personal note to start this update. My dad is turning 90 on July 19th and we are having a big party/reunion/celebration of his life at his golf club in Waldport OR. If one is lucky, one gets to have a few mentors in life and my Dad has certainly been number one for me. He and I have been doing things together since I was young. He taught to swing a golf club at age 7. I kept score for his fast-pitch softball team (this was huge in Illinois and the mid-east/west) and watched him play city-league basketball while I shot the ball on a side basket. As I moved into my teens, he helped with my math, coached me on how to hit any pitcher no matter how hard they threw, and was my golf coach as I went from scoring in the mid-90s as a freshman to the low 70s as a senior. We always kept in touch when I moved away and had a family. Then, as my kids grew into late high school and college, we were able to travel to Europe, South America, and twice to the Himalayas along with hiking and camping several times in the Sierras. We've played numerous top golf courses around the country and have a blast every time we get together. The most important thing we always did together though, is laugh. We've been having fun and laughing for the past 60 years.

The most important lessons I've learned (err...trying to learn) from "Pa" are patience and compassion. For me, he always had the ability to turn around whatever negative feelings I was having and kept me moving forward. As I've gotten older, one of my goals is to "be like Pa" and show that same compassion and patience. This is a work in progress.

Zeno was an ancient Greek philosopher who reportedly wrote about over 40 different mathematical paradoxes, generally having to do with calculus or "matter in motion." (<https://plato.stanford.edu/entries/paradox-zeno/>). Just finished reading a book about him* and one paradox caught my attention. Imagine two runners – Joe and Don. Joe is on the starting line and Don is at the 50 yard line and they are racing to the 100 yard line. Joe can run twice as fast as Don, meaning Joe can run 20 yards at the same time as Don runs 10 yards. Will Joe catch Don? According to Zeno, the answer is "no." When the race starts and Don is at the 75 yard mark, Joe would be at the 50 mark. When Don is at 90 yards, Joe is at the 80 yard mark. When Don is at the 99 yard mark, Joe is at the 98 yard mark. When Don is at the 99.5 yard mark, Joe is at the 99 yard mark and so on. Using this little bit of "mathery," one can see, if it's taken to infinity, Joe will never actually catch Don.

"Zeno's Paradox" by Joseph Mazur

The point of this is not everything is as obvious as one might believe. Are tariffs automatically inflationary because they impose a tax on imported goods, meaning the price "should" be higher? Hasn't happened so far (of course it could still be early). Why did the stock market ramp meaningfully higher as it became more obvious the "One Big Beautiful Bill" was going to pass, despite its deficit busting score? Sometimes what we think is going to logically happen fails in the real world. Or, to quote philosopher and old time baseball player, Yogi Berra, "In theory, there is no difference between practice and theory. In practice, there is."

It's been a while since I've sent out a full market note. The last few months have been packed w/ market machinations and taking Madelyn to volleyball tournaments and having the worst flu I can remember. Additionally, my "new" life in business, which I'll get to at the end of this note, has been keeping me as busy as I've ever been.

Hard to knock the tariff story off the front of the financial pages, but the "**OBBB**" (**One Big Beautiful Bill**), did just that. As you may know, while I love politics, I don't get political in these notes. So, I'm only going to highlight what is probably most pertinent moneywise and those are the provisions having to do with taxes. Here are the major points:

- **Current tax rates continue**
- **Standard deduction going up: \$15,750 single / \$31,000 couple**
- **\$6,000 extra tax deduction for those over 65. This is effective from 2025 through 2028. Then it ends**
- **\$40k deduction for prop/state taxes for next 5 years, ending in 2030.**
- **Renewal of the QOZ (Qualified Opportunity Zone) Funds in 2027**
- **Larger deficits going forward (notwithstanding the claim economic growth will cause them to be reduced), potentially causing bond rates to rise.**

The stock market reaction, as it became obvious the bill was going to pass, was a quick run to all-time highs (just off those levels as I type on July 15th). The stock market perceives that massive deficit spending, some additional tax deductions, and the continuation of the present tax rates will be a windfall for big corporations, and I think they're right. In retrospect, the massive spending by the federal (and state) government of the past 5+ years has enriched the stockholders of large corporations. Tax dollars and borrowed dollars have flowed into the bottom lines of the companies you know and love. As long as the gravy continues, most likely, the party carries on (at least until the bond market screams "stop").

As mentioned, the **Tariff story** was and continues to be a big one. Of course, depending on the day and time, all can change in an instant. Anyway, at this time, here's what tariffs may eventually be for major countries and regions:

- **25% - Japan & South Korea[^]**
- **30% - China^{*^}**
- **30% - Europe**
- **35% - Canada^{^*}**
- **May be overturned – court date July 31^{st*}**

[^]<https://www.cnbc.com/2025/07/07/trump-tariffs-trade-letters-japan.html>

^{*^}<https://apnews.com/article/trump-china-trade-tariffs-rare-earth-minerals-cbd2482bd2b3a7ce8d47030c4ff1c3d4>

^{**}<https://apnews.com/article/europe-us-trump-tariffs-trade-be679cb7642c167baabdce2c50392d0f>

^{^*}<https://www.zerohedge.com/economics/tariff-windfall-drives-surprise-27-billion-us-budget-surplus-june>

^{*}<https://www.cnbc.com/2025/06/10/trump-tariffs-may-remain-in-effect-while-appeals-proceed-us-appeals-court-rules.html>

Regardless of the final tariff rate hikes are, they are a tax on either the consumer or the producer. Someone either pays more or earns less profit. Generally when prices are raised or profit margins are reduced, it results in a slowdown of sales. My belief is Trump doesn't want that to happen on his watch so, if it appears the market is saying "NOOOOOOOOO," I think he will figure out some reason to change what was said a week or a month ago. If that doesn't happen, then higher tariffs may offset some/all of the stimulus of the OBBB.

As noted, there is a court date on July 31st to hear arguments that Trump doesn't/shouldn't have the power to unilaterally set tariff rates since they really are taxes and that's the job of congress.

You need to start having babies to change our **demographics**. I've written about this subject in the past and that past is now present. According to research from the University of Pennsylvania*, the global fertility crisis is worse than what many thought. Here are a few key notes from the link below:

- 2023 was likely the first year in human history when our fertility rate fell below the replacement rate.
- The world population will start falling c. 2055.
- Never seen before, even compared to wars and pandemics
- While in the US we have net immigration, remember, net migration into Earth is zero
- Each immigrant into a rich country makes the position of the poor country harder, causing their fertility rate to drop.

With births dropping faster than expected, the world's countries that use "pay as you go" social welfare systems (like the US, Europe, Japan) are not going to be able to handle the strain of a system where the number of young people relative to the number of retirees is declining rapidly. From my viewpoint, only massive money printing (devaluing currencies) or cutting of benefits (reduction of spending), such as was done in Southern Europe a decade ago, will "solve" the problem. Once you start thinking about these issues, it is hard to think about anything else: demography is destiny and, "someday" it will be biting our posterior.

*https://www.sas.upenn.edu/~jesusfv/Slides_London.pdf

What I am doing. Finally, I think it's important to let all know that my business model has changed considerably the past few years. I am personally managing relatively little money in the way I used to do it. Now, for most actively managed accounts, I'm using Q3 Asset Management, which has several "strategies" that have proven successful over long periods of time. They are having an excellent year again this year (performance reports available upon request).

For large percentages of client (and my money), I'm using structured contracts that allow me to track the gains of the major stock market indexes while taking no or significantly reduced stock market risk. Because the indexes have gained considerably the past 2+ years (far better than diversified portfolios), investors in these contracts have made excellent returns, outpacing the traditional 60/40 portfolios by a good margin while reducing risk. Of course, I don't know what the returns will be in the future because no one can predict with certainty what the stock markets will do. I do know that, if the indexes into which we're allocated go up during a term, then I/we will make money because the accounts are linked to the indexes. On the flip side, if stock markets decline, I and my clients have either complete safety or large "buffers" to protect against losses so we can live to invest another day.

If you've read this far, thank you and let me know what you think. And, if you like the note, pass it along to a friend who may not get this type of info from his/her advisor.

Thank you for allowing us to be of service.

Enjoy,

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