**John Dessauer Investments, Inc.**

**John Dessauer's market review and update as of Wednesday March 8, 2023**

Warren Buffett writes a letter every year for shareholders of Berkshire Hathaway. The letter is always very popular and read by far more investors than the Berkshire shareholders. This year's letter is unique. Instead of writing about markets and individual holdings Buffett took a swipe at Washington politicians, calling some of them buyback illiterates. Democrats, including President Biden and Senator Elizabeth Warren have been campaigning against corporate stock buybacks. President Biden has signed into law a 1% tax on net buybacks and now wants to increase that tax to 4%.

Here is what Warren Buffett has to say about that tax: "When you are told that all repurchases are harmful to shareholders or to the country, or particularly beneficial to CEOs, you are listening to either an economic illiterate or a silver-tongued demagogue (characters that are not mutually exclusive)".

The new tax is not devastating, but it is especially harmful to a company like Berkshire Hathaway. Berkshire is unusual because it uses its buybacks to reward shareholders, not executives, and it pays no dividend, using repurchases as its only way of returning cash.

Why are some politicians so obsessed with taxing stock buybacks? That is a hard question to answer because the cash used to finance the buybacks is after-tax cash. In addition, there are likely capital gains taxes collected on those who are selling the stock. So Warren Buffett is right this tax on stock buybacks makes no fiscal sense at all and is simply politicians meddling in corporate cash management, something they know nothing about. This is a tax that should be repealed not increased.

Speaking of taxes, the Internal Revenue Service recently released its income and tax statistics for 2020, and they show the top 1% of earners paid 42.3% of the country’s income taxes. That is a two-decade high in the share of taxes paid by the top 1%.

Another telling statistic is that the top 5% of earners reported 38.1% of total income but paid 62.7% of all income taxes. In sharp contrast the bottom 50% of earners reported 10.2% of taxable income but paid only 2.3% of the taxes. This data shows clearly that the U.S. tax code is very progressive, taxing the rich far more than the average taxpayer.

As the editors of the Wall Street Journal say: “This shouldn’t be news to anyone paying attention, but it’s worth noting the enormous gap between reality, as reflected in the data, and the posturing in Washington about the rich escaping taxation. Despite the President’s demagoguery, millionaires and billionaires don’t pay less than their secretaries.”

Last year federal income tax revenue came in at 19.6% of GDP, a level reached only three times before. Government is dependent on the private sector. It is essential to have a healthy balance where the private sector thrives and the government benefits. When government becomes too large the private sector suffers and government bureaucrats start taking over whole parts of the private sector. That is how socialism develops and economies are ruined. The United States federal government clearly has a spending problem that needs to be curtailed. Hopefully the new House of Representatives will start that process and rein in the President’s spending binge.

The Federal Reserve is doing its best to stop the inflation caused by excess government spending. The problem is that it is more difficult than expected to slow the economy enough to bring inflation pressures down. The economy suffered during the pandemic and has since been recovering quite nicely on its own. The Biden excess spending was not needed and has just made avoiding a recession that much more difficult.

It is comforting to see the economy recover but what is not getting widespread attention is that there is still a lot of ground to make up to achieve a full recovery. There are all sorts of activities, from visiting amusement parks and movie theaters to outpatient surgery, that have seen significantly more frequency from last year but still seem to have plenty of room for improvement.

The Biden Administration wants to bring back manufacturing from China. That is a very good idea and is being implemented by offering huge subsidies from corporations to build new plants, especially for chip making. The problem is that attached to the subsidies are terrible requirements, including a five year no stock buybacks clause and a child-care requirement that may well be impossible to achieve. There aren’t enough child-care workers to satisfy that requirement. Looking at all the details, Godman Sachs experts say that the plan will not amount to very much in the way of returning manufacturing. At best the Goldman Sachs folks say it might amount to a 1% shift in dependence on China.

The Biden team apparently does not remember why so much U.S. manufacturing moved out of the U.S. to Asia. The answer is that it costs 40% more to make goods such as chips in the United States. Bringing that manufacturing back will require making the U.S. far more business friendly. Imposing taxes on stock buybacks and otherwise wanting to raise corporate taxes plus imposing wide ranging regulations is going to keep discouraging manufacturing at home. Given the rising tensions between the USA and China this is really a scary situation.

No wonder that with interest rates rising investors are being cautious about buying stocks. Mike Wilson of Morgan Stanley was named the top strategist on Wall Street in 2022. His early warning that rising interest rates and a slowing economy would lead to a tough year for the stock market was correct. He now says that after the strong January a 26% fall in stocks is possible this year.

That is not a prediction, it is a warning of what *could* happen. The stock market is currently in a no-win situation. Good news on the labor market means no recession but also no interest rate cut. Many analysts believe that an interest rate cut is what is needed to send the stock market significantly higher.

I will be happy when the Fed is able to stop raising interest rates. And I think the odds are that that will happen this year. Mike Wilson's warning will keep a lot of investors on the sidelines. But when inflation really stops rising, Mike will likely change his outlook.

I will have the next market review and update for you one week from today on Wednesday, March 15, 2023.

All the best,

John Dessauer

© March 2023