

Outlook for the Economy & Financial Markets

- Robert Genetski
- Website: classicalprinciples.com
 - Phone (312) 565-0112

Keynesian Economics

- Economy is inherently unstable
- Confidence drives spending and markets
- Active government policies can stabilize the economy

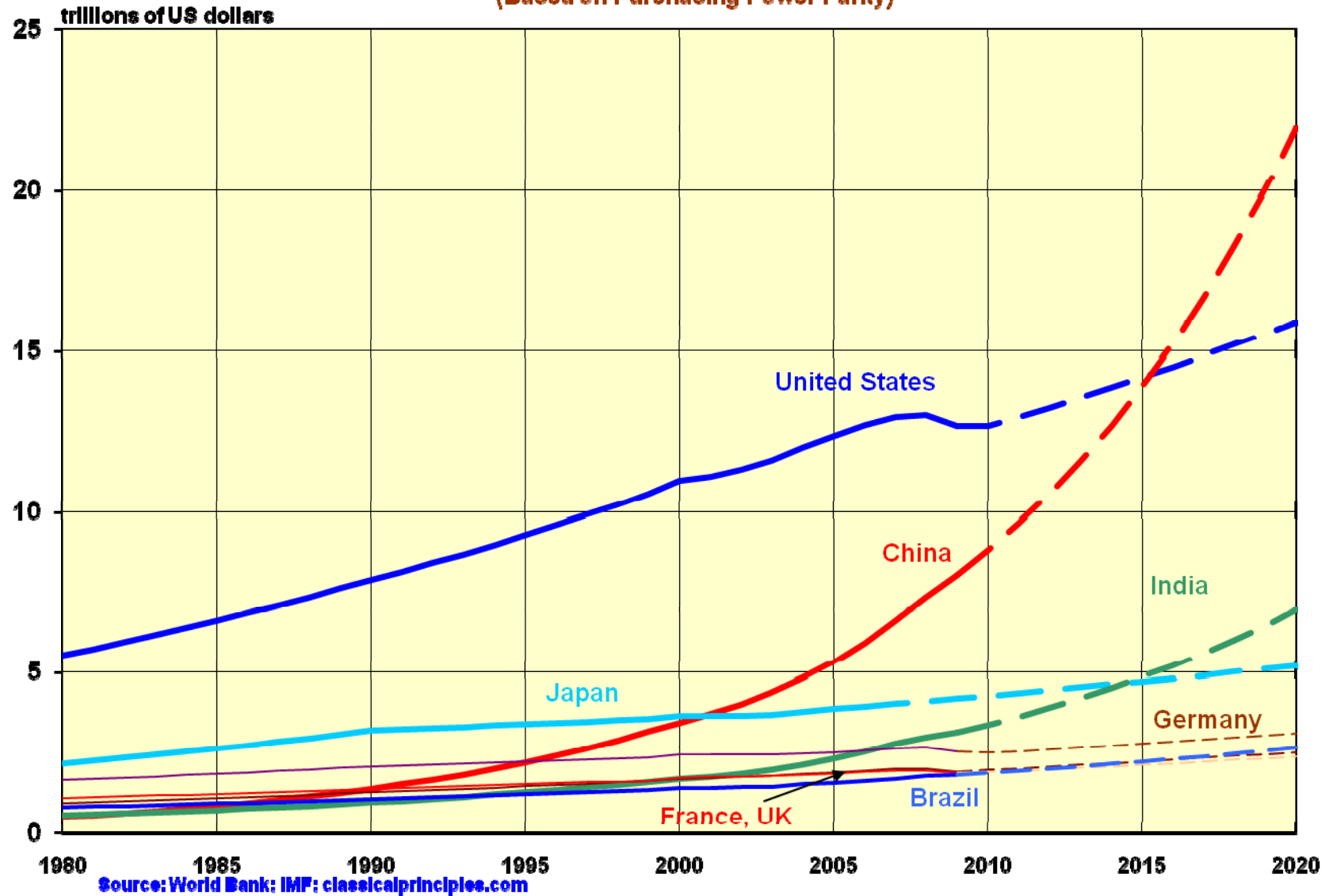
Classical Economics

- Economy is inherently stable
- Government policies produce business cycles and inflation

Classical Principles

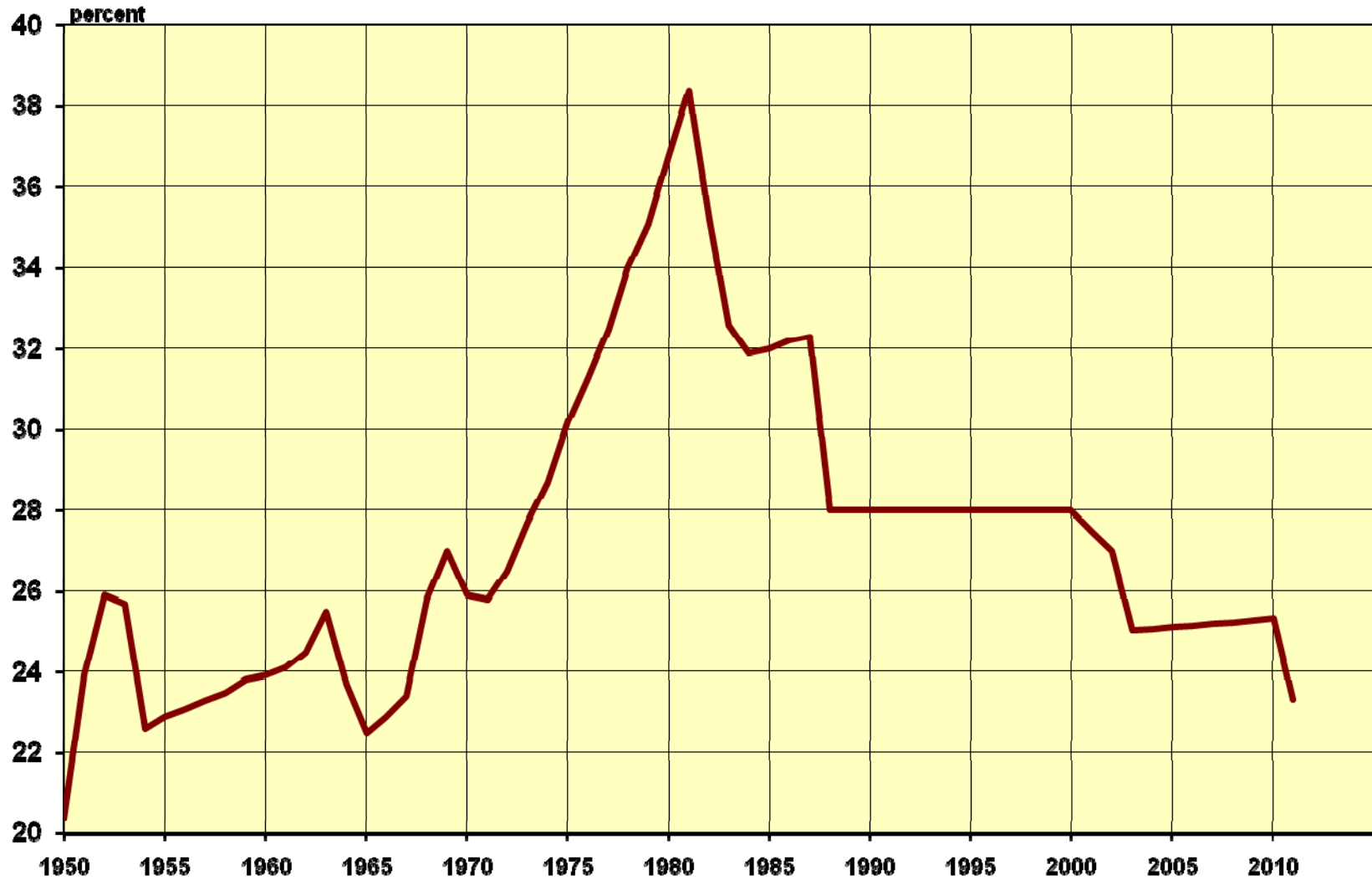
- Low tax rates & limited government
- Free Markets
- Protect Individual Property Rights
- Stable Prices

Total Output of Major Countries (Based on Purchasing Power Parity)



Effective Marginal Tax Rates: Individuals

(Data are based on estimates of MTR for Indiv. in 70th-95th percentile)



source: IRS Statistics of Income; classicalprinciples.com

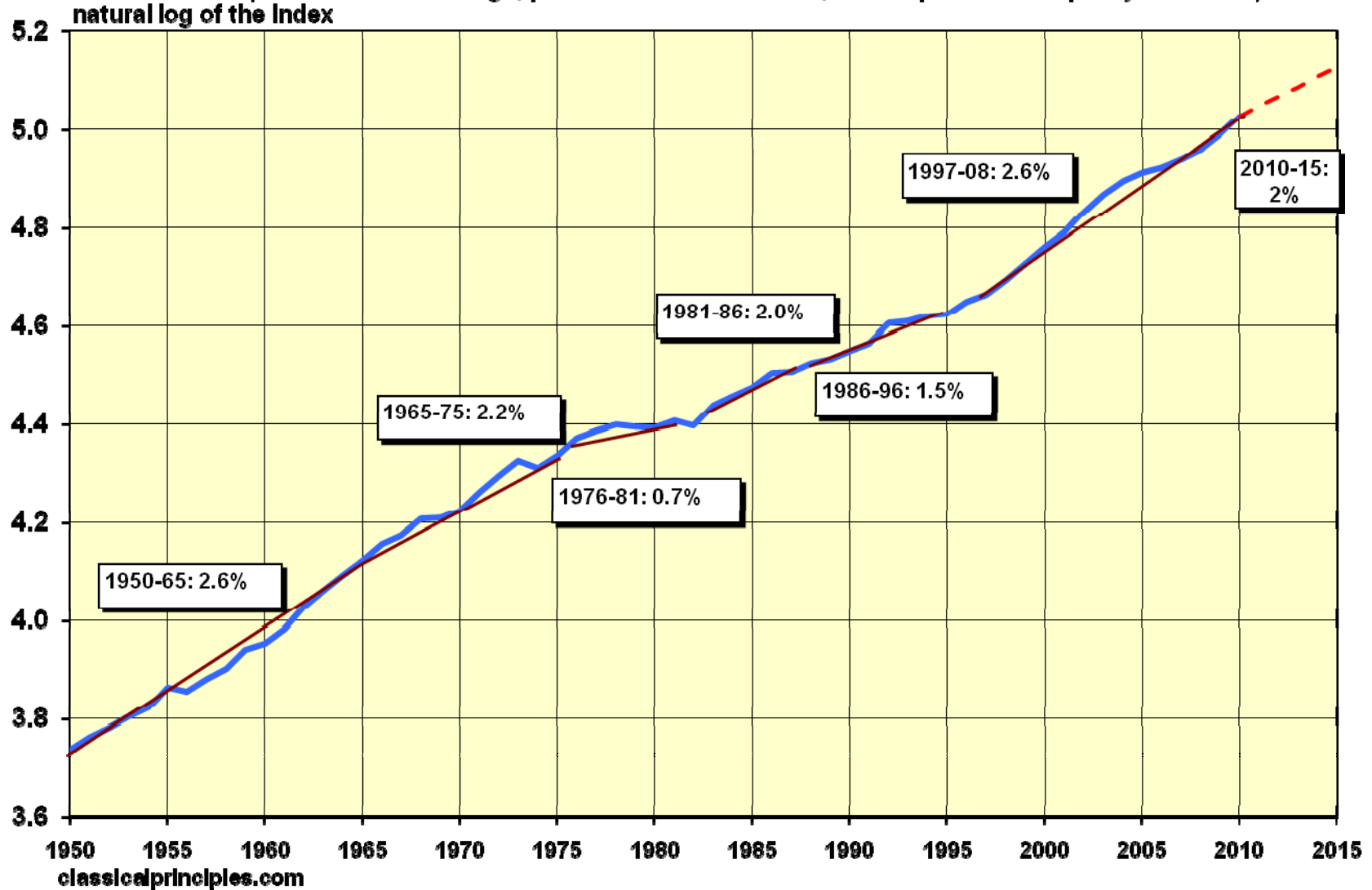
Marginal Tax Rates: Capital Gains

(Maximum capital gains tax paid by Individuals)

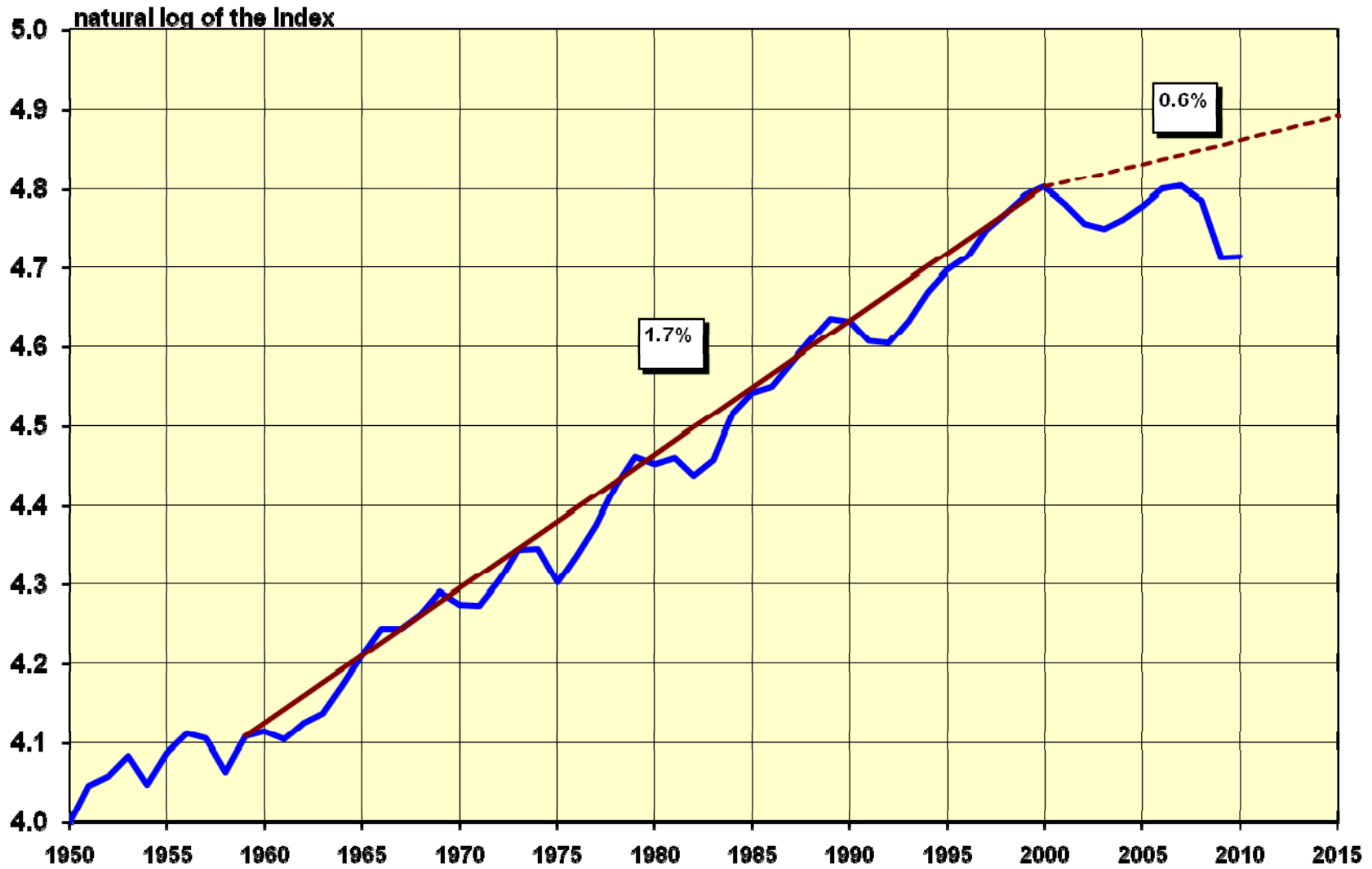


Productivity Trends

(annual rates of change; private nonfarm business; similar periods of capacity utilization)



Total Hours Worked (private nonfarm economy)



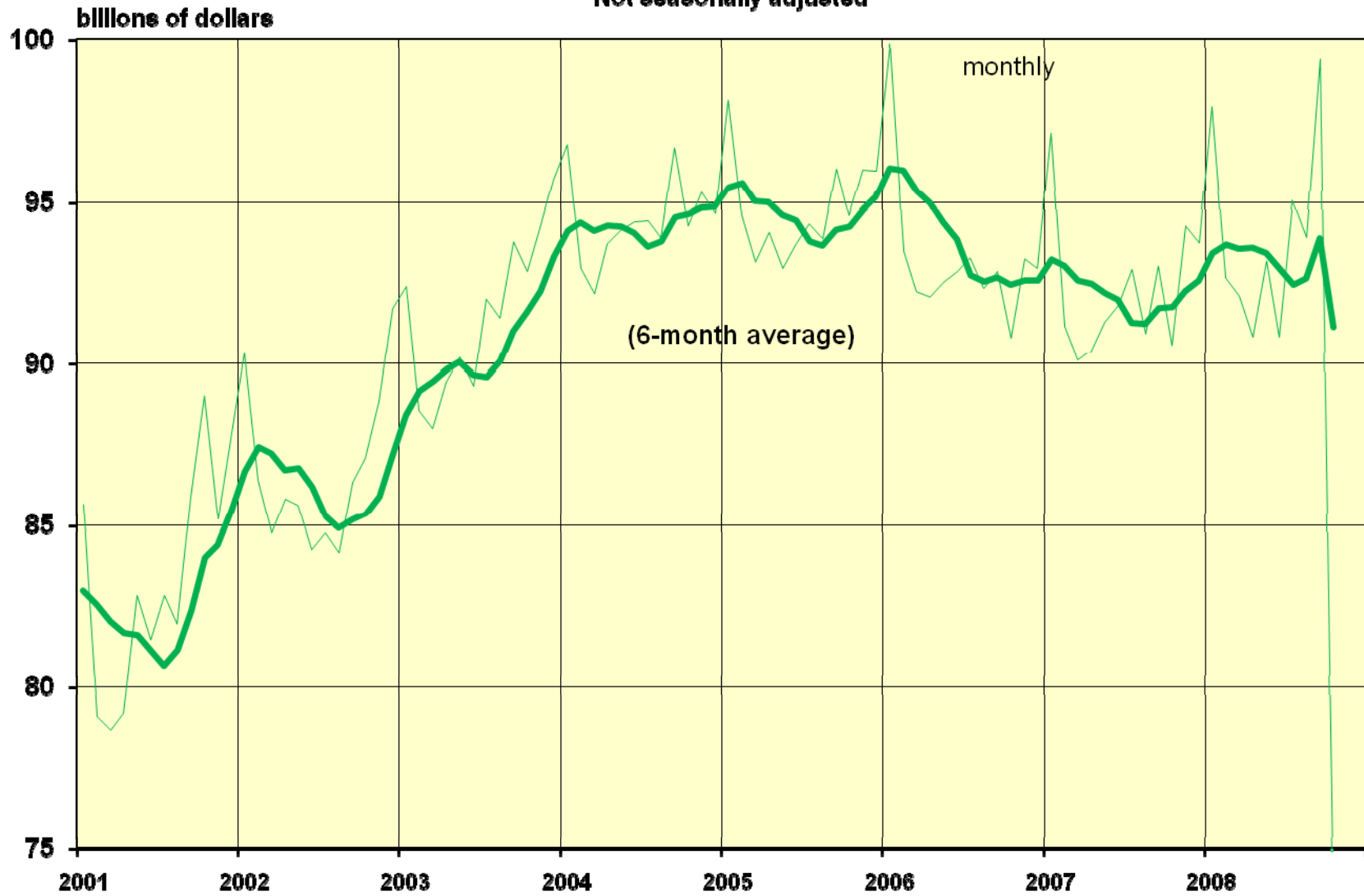
Cost of Government

(trillions of dollars)

	Federal	Compl.	S&L	Share of NI
• 2000:	\$1.9	\$1.0	\$1.3	46%
• 2010:	3.7	1.8	2.1	57%
• 2015:	1.9	2.8	2.7	62%

Adjusted Bank Reserves less Excess Reserve

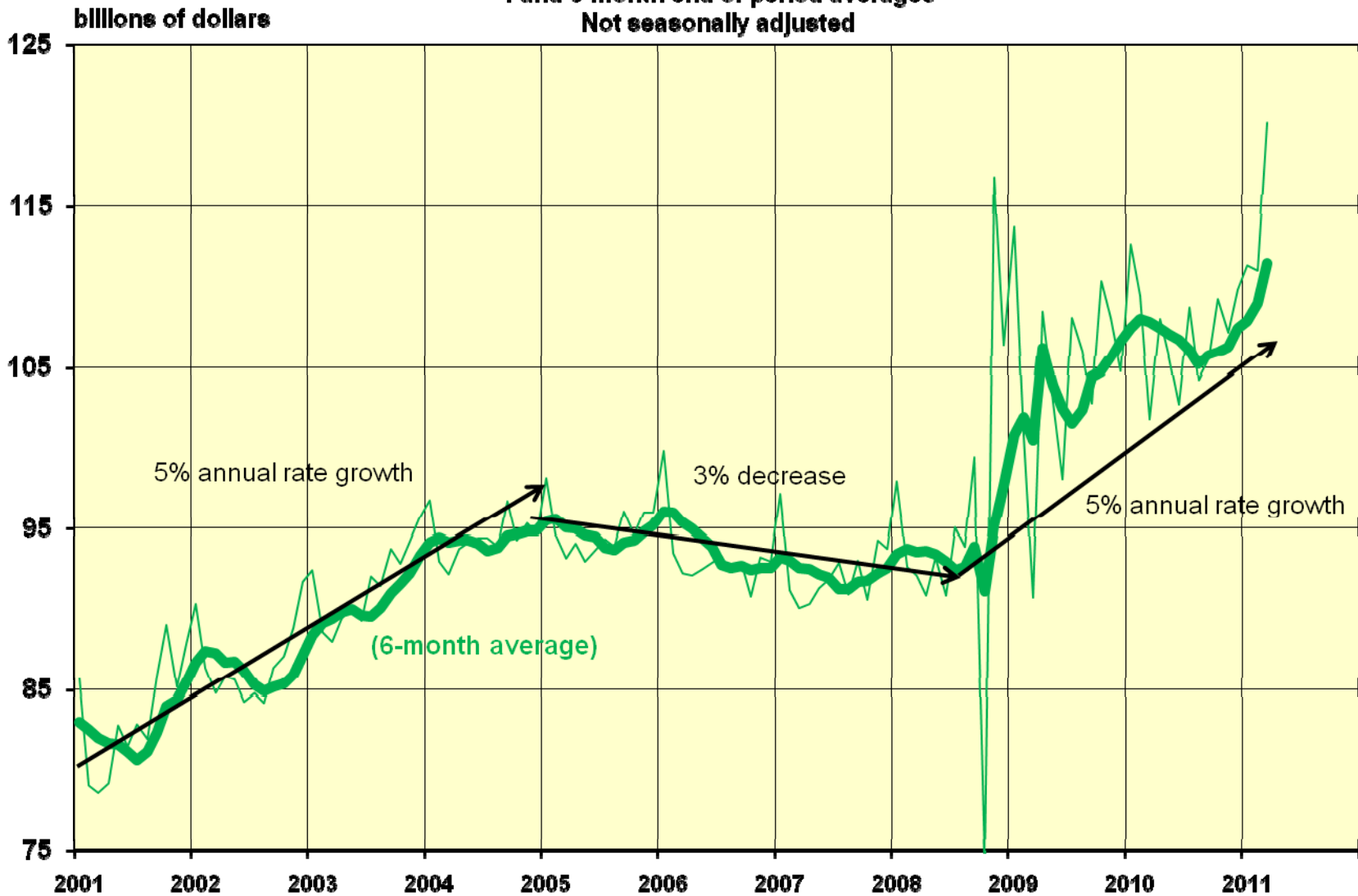
Not seasonally adjusted



Source: Federal Reserve Bank of St. Louis; classicalprinciples.com

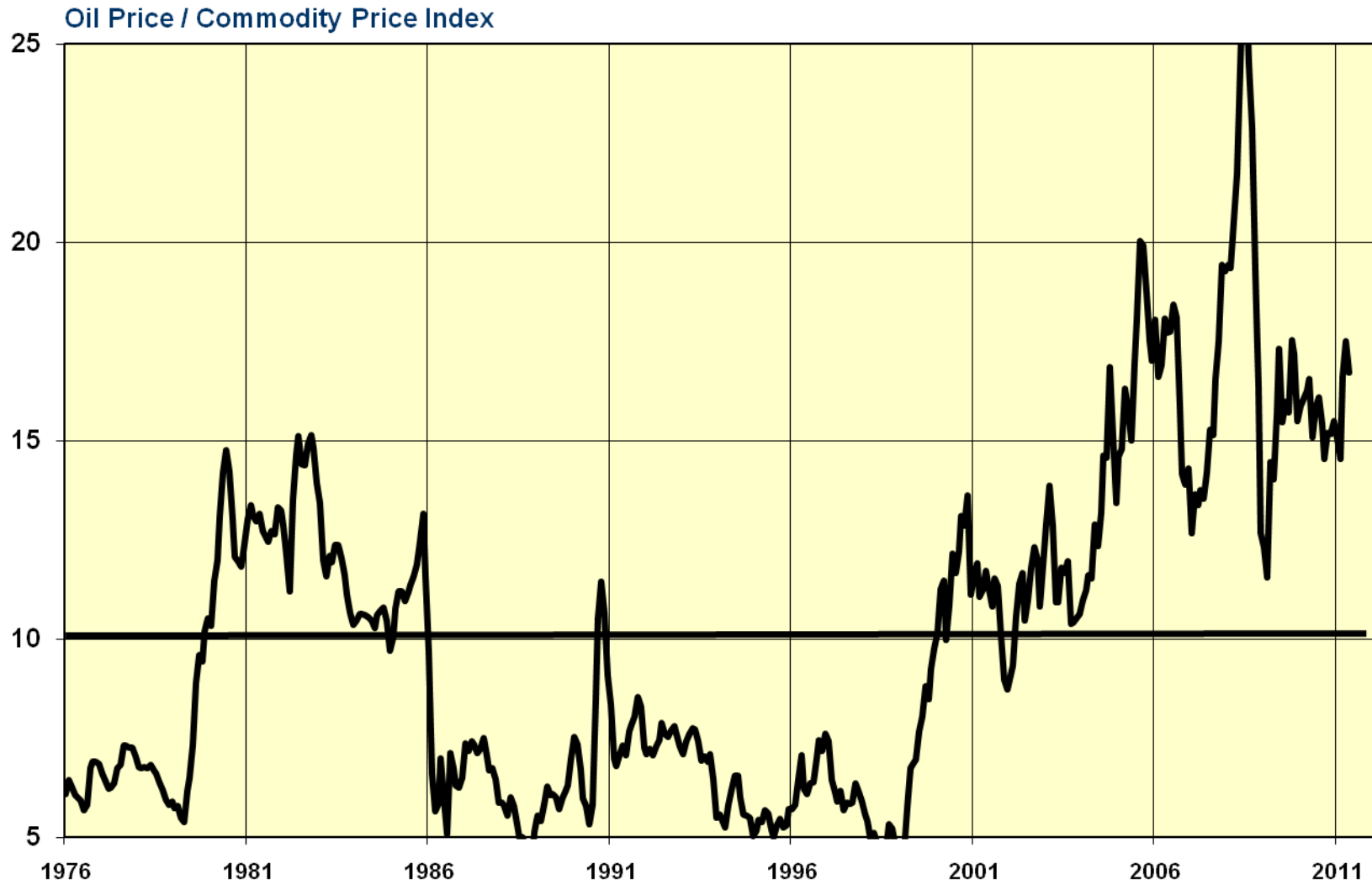
Adjusted Bank Reserves less Excess Reserve

1 and 6-month end of period averages
Not seasonally adjusted

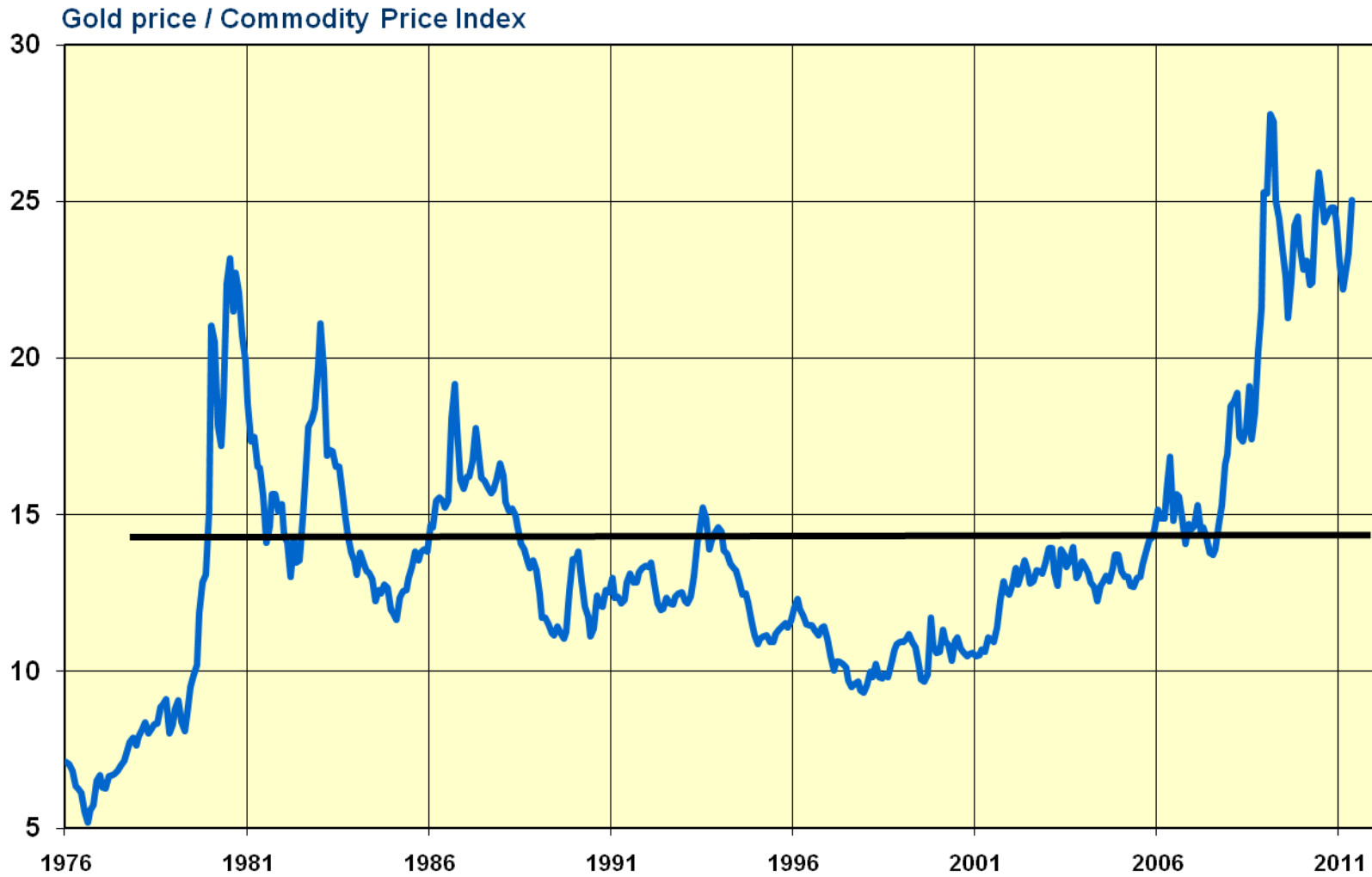


Source: Federal Reserve Bank of St. Louis; classicalprinciples.com

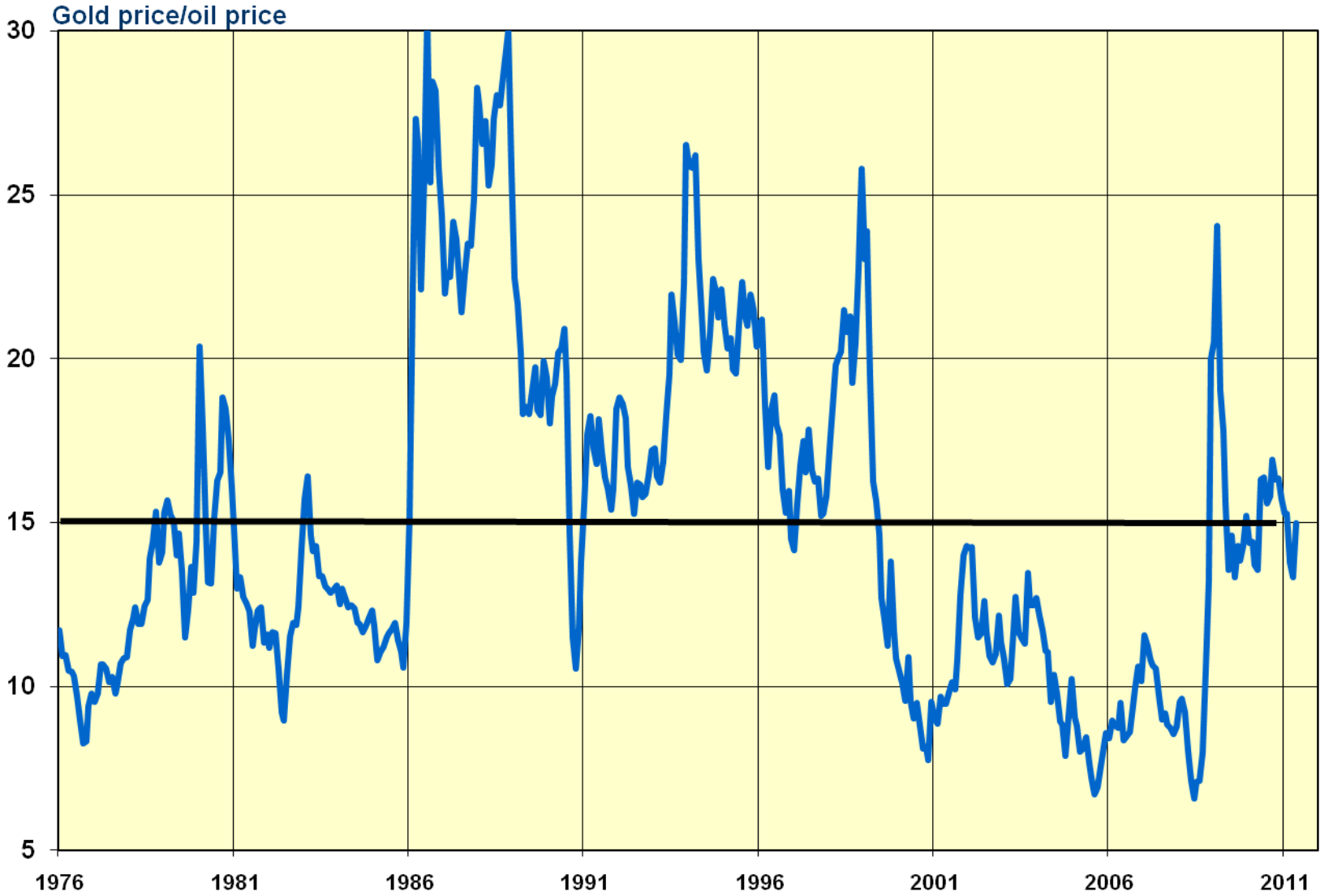
Oil Prices Relative to Commodity Price Index



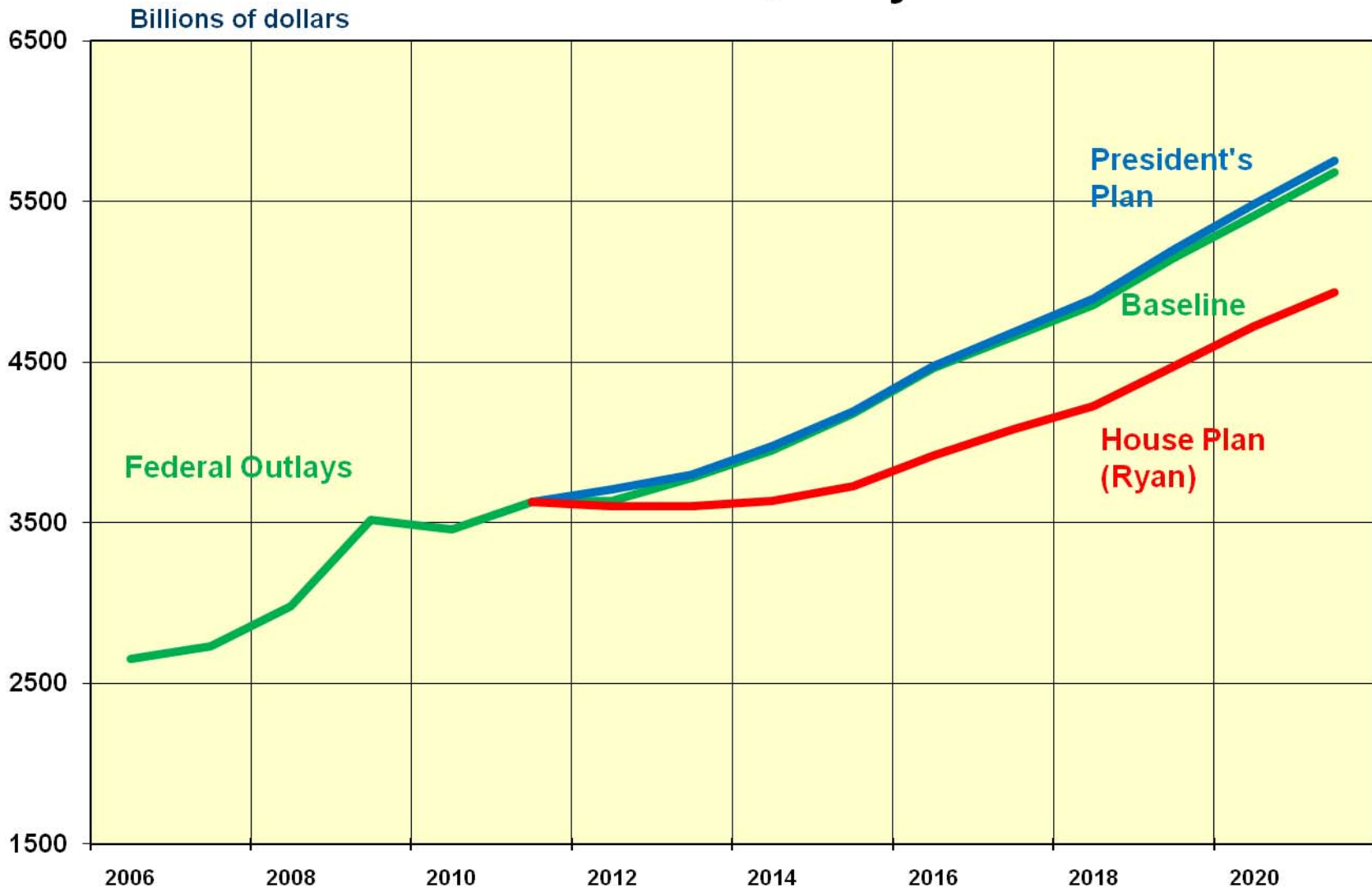
Gold Price Relative to Commodity Price Index



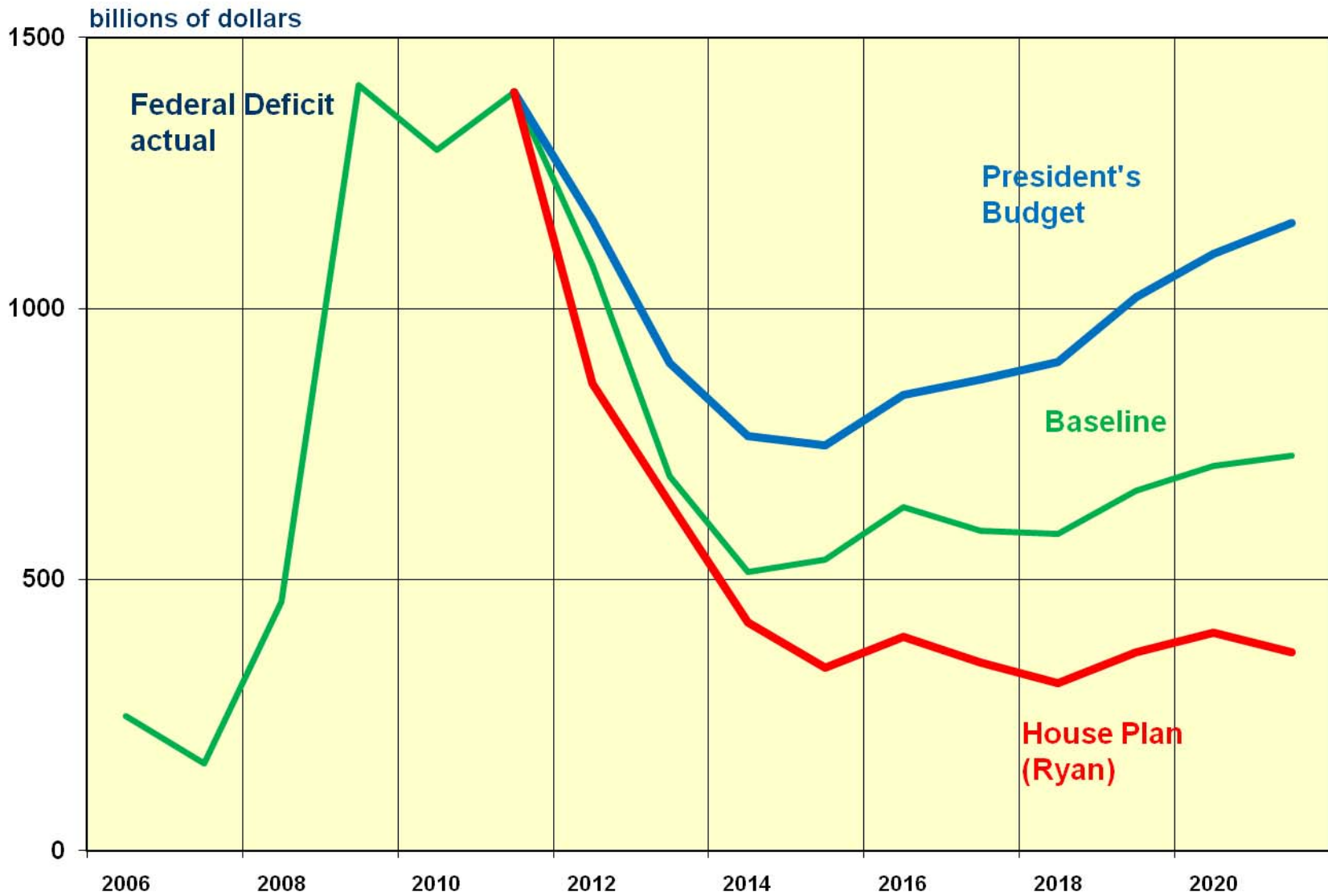
Gold Prices Relative to Oil



Federal Outlays

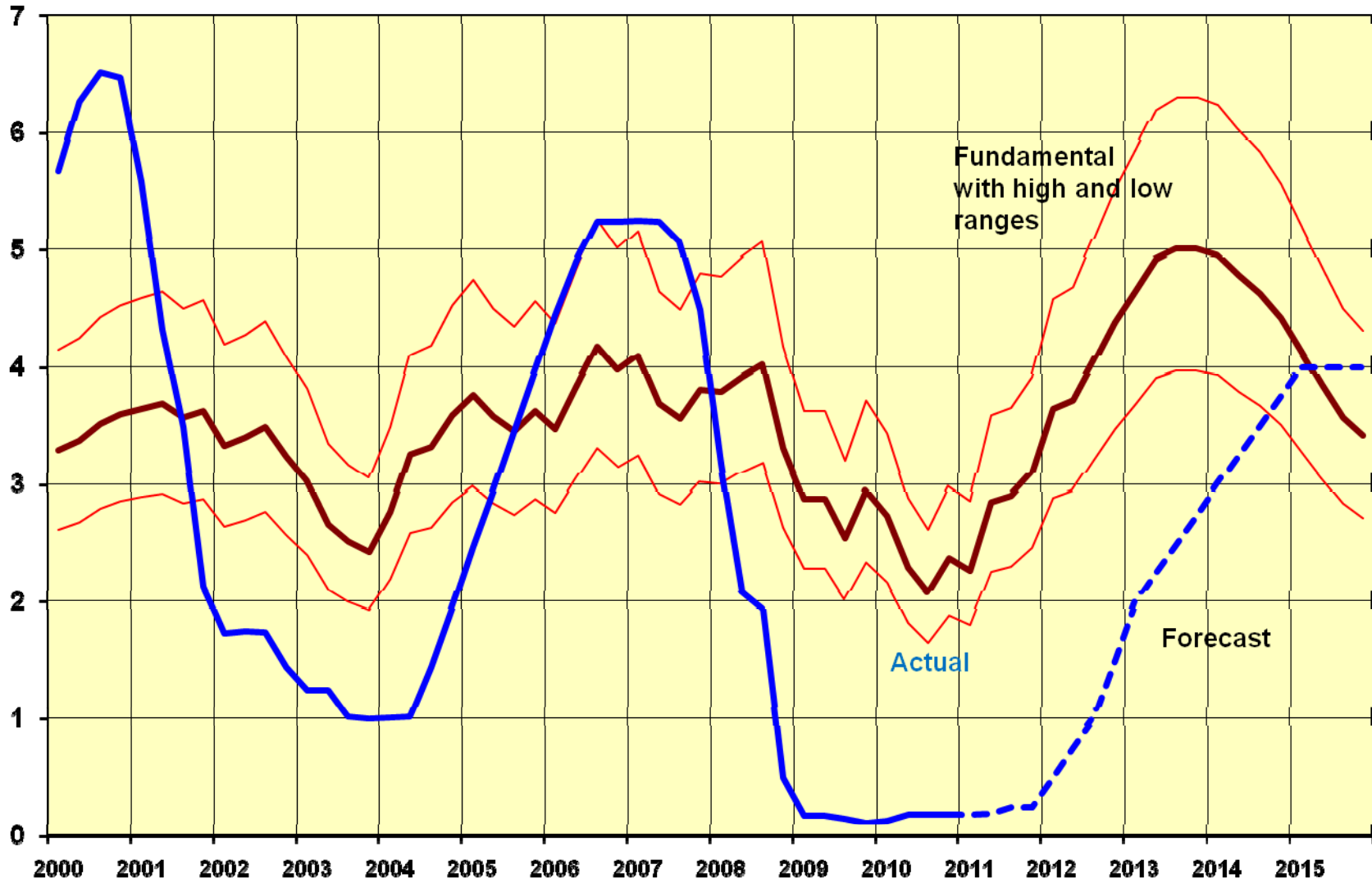


Federal Deficit



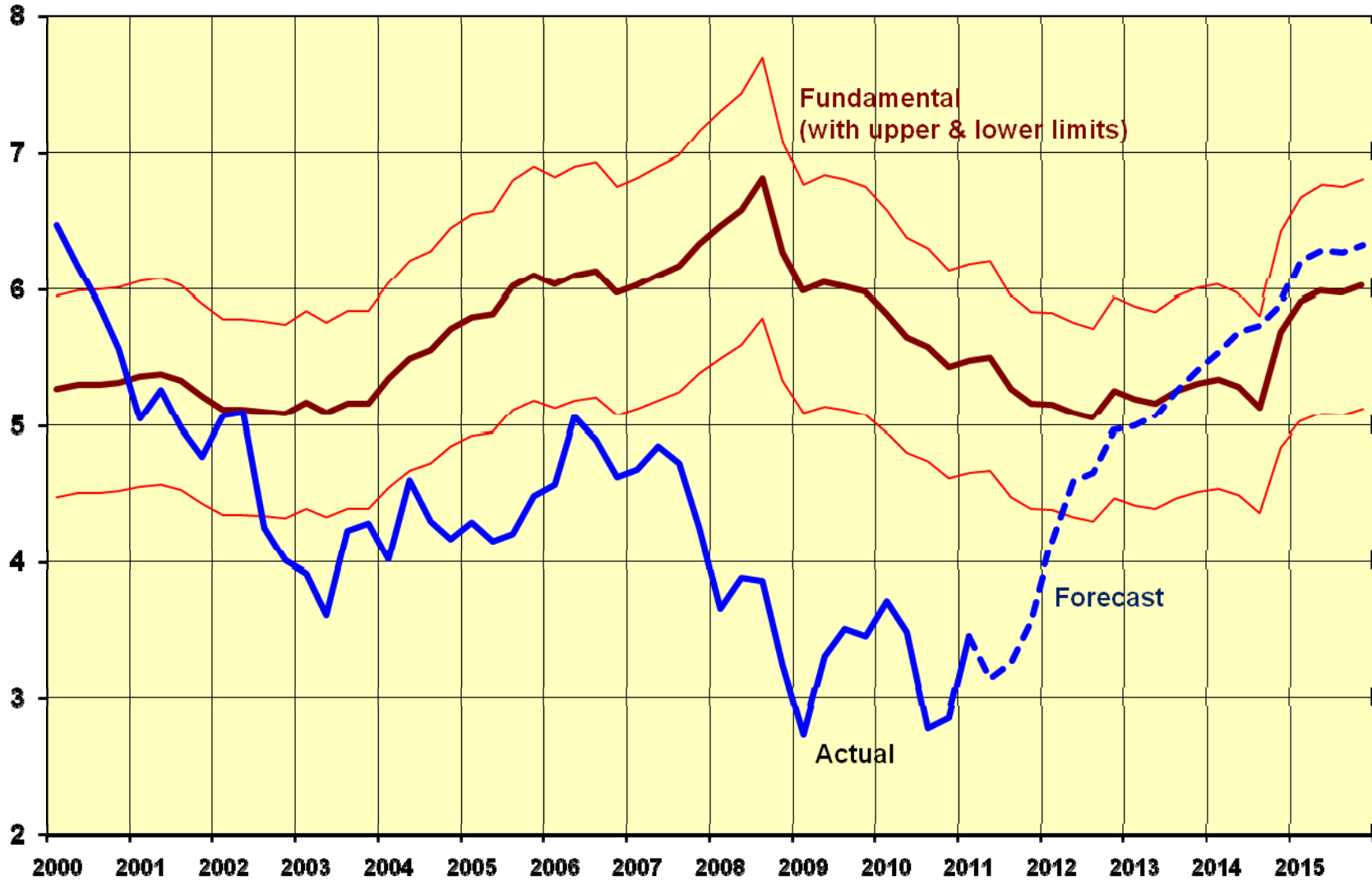
Fed Funds Interest Rate

Fundamental uses 0.5% real after-tax rate; 1 year average core inflation; 30% tax premium)



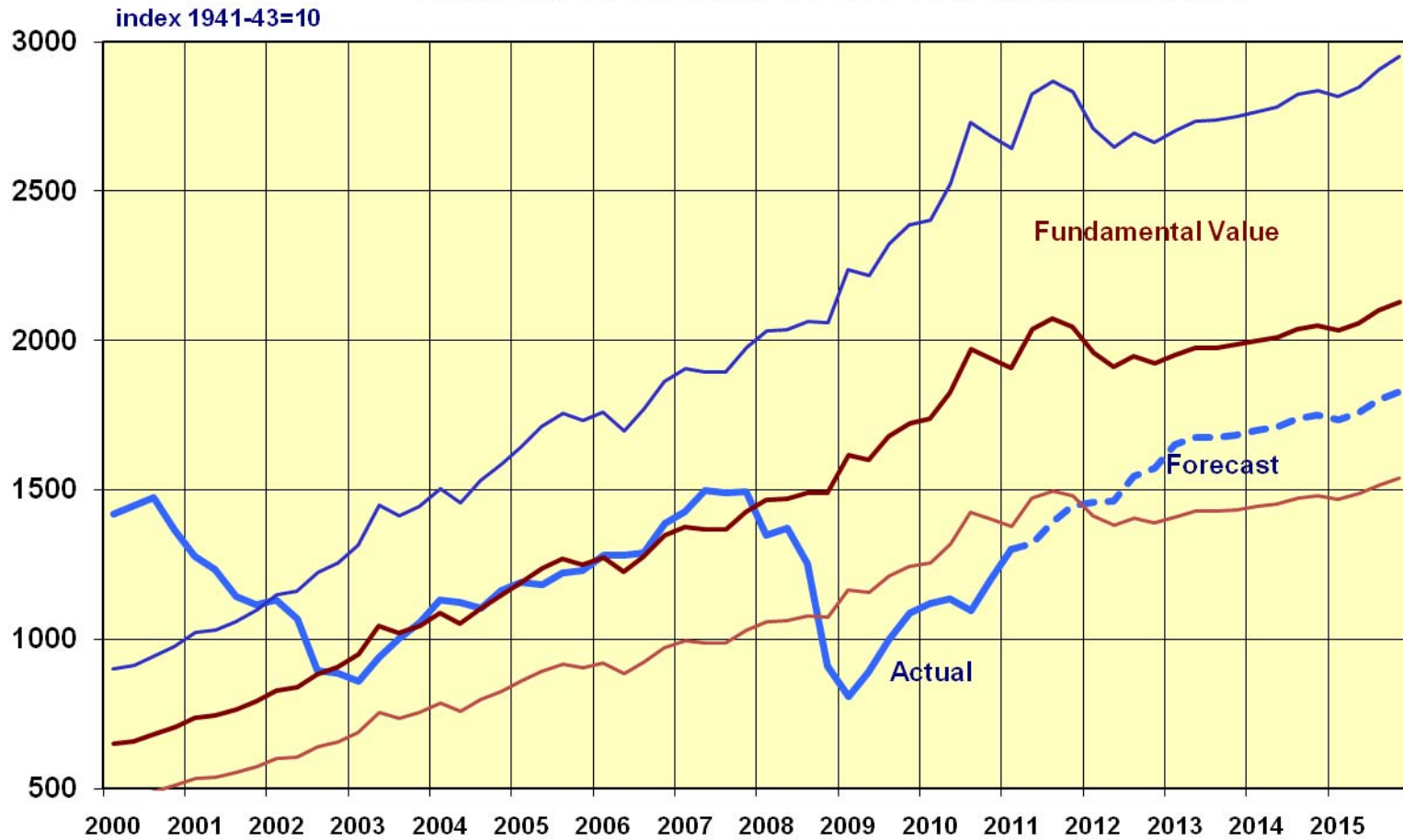
10-Year Treasury Bond Rates: Actual & Fundamental

(Fundamental is 1.4% real rate; 5-year inflation average cpi, gdp deflator; 25% marginal tax rate)



Stock Prices: S&P 500

(Fundamental value of stocks is based on a regression with S&P average PE, trend 6.5% earnings and AAA corporate interest rates as the explanatory variables)



Opportunities & Strategies

Identify opportunities & threats:

1. Avoid long-term bonds
2. Avoid buy/hold strategy for stocks pending...
3. Problems will be resolved
4. Monitor \$ policy, federal budget policy

Wrap Up

1. Monetary policy dominant force
2. Government spending/regs must be cut
3. Keep the Faith

Robert Genetski

www.classicalprinciples.com