



THE ELECTION YEAR HAS ENDED ... NOW WHAT?

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Throughout the year, America wrestled with the anxiety of not knowing who the next President would be, and which party would be in charge. The two parties represented very different paths regarding policies and governance. November 5th finally arrived, and we had the answer. Now we know that Donald J. Trump has won, and he has given us some ideas regarding his policies. The big question has been answered, but now we must determine how many of those policies will he be able to implement and what will be the impact on the economy and the markets. In this newsletter, we will focus on three main policy objectives: tariffs, "drill baby drill", and deportation to reduce the cost of illegal immigration.

WHAT ARE TARIFFS?

Tariffs are taxes imposed by a government on goods and services imported from other countries. They are a form of trade regulation that can serve multiple purposes.

TYPES OF TARIFFS - There are two main types of tariffs:

Specific tariffs: A fixed fee based on the type of item, such as a \$500 tariff on a car.

Ad valorem tariffs: A percentage-based tax on the item's value, like 5% of an import's value.

FUNCTIONS OF TARIFFS - Tariffs serve several key functions:

Revenue generation: Governments can use tariffs to raise funds.

Protection of domestic industries: By making imported goods more expensive, tariffs can encourage consumers to buy from local producers.

Influence on trade relations: Tariffs can be used as an economic tool in foreign policy.

Consumer protection: Tariffs can make potentially harmful foreign products less attractive to domestic consumers.

WHAT ARE THE AIMS OF TARIFFS?

Tariffs are intended to protect local industries by making imports more expensive and driving consumers to domestic producers.

Unfair trading practices. Some tariffs are meant to counteract specific measures taken by foreign countries or firms. For instance, the United States applies "countervailing duties" when another country subsidizes a domestic industry-allowing its exporters to sell products at a lower price than they would otherwise be able to in a free market-and thereby undercuts U.S. producers.



"Antidumping" tariffs are applied when a U.S. firm proves that a foreign firm is selling products in the United States at lower prices than they charge at home, often in an attempt to drive competitor out of an industry before raising prices. In both of these cases, tariffs are meant as a penalty that allows domestic producers to compete as if the market had not been distorted.

In 2018, under the auspices of Section 301 of the Trade Act of 1974, the Office of the U.S. Trade Representative (USTR) issued a report detailing how China's intellectual property (IP) practices were "unreasonable or discriminatory, and burden or restrict U.S. commerce." These included pressuring American companies to hand over their IP as a condition for doing business in China, known as forced

technology transfer. On the basis of the report, Trump imposed a slew of tariffs, ultimately covering roughly \$360 billion worth of imports from China.

National security. In some strategic industries, often for goods with military uses, tariffs can be used to ensure a country does not rely on trade for its supply of critical products. Most notably, Section 232 of the Trade Expansion Act of 1962 allows the president to raise tariffs on certain goods for national security reasons.

WHAT IS TRUMP'S 'DRILL BABY DRILL' POLICY?

Donald Trump's "Drill, Baby, Drill" policy aims to boost domestic fossil fuel production, particularly oil and natural gas, with the goal of achieving energy independence and lowering consumer prices. While the Policy's effectiveness is debated, proponents argue it could bring several economic benefits:

Lower Energy Costs: Trump Claims his policy could cut energy prices by up to 50% within 12 months of taking office. Supporters argue that increased domestic production could lead to:

- Reduced heating and air conditioning costs
- Lower electricity prices
- Cheaper Gasoline

Job Creation: Expanding drilling operations could potentially create new jobs in the energy sector and related industries.

Economic Stimulus: Increase domestic energy production might stimulate economic growth by:

- Attracting investment in the energy sector
- Boosting related industries such as manufacturing and transportation

Energy Independence: Reducing reliance on foreign oil could improve national security and economic stability.

How much does illegal immigration cost the U.S. each year?

The cost of illegal immigration to the United States is a complex and debated issue, with estimates varying widely depending on the source and methodology used. However, based on recent data, we can provide some key figures:

Annual Cost Estimates

The Federation for American Immigration Reform (FAIR) estimates that the net cost of illegal immigration to U.S. taxpayers is approximately \$150.7 billion per year. This figure includes costs at the federal, state, and local levels.

Costs per Taxpayer - On an individual level, it's estimated that illegal immigration costs each American taxpayer approximately \$1,156 per year, or \$957 after factoring in taxes paid by illegal aliens. While these figures provide a general overview, it's important to recognize that the full economic impact of illegal immigration is multifaceted and includes both costs and contributions to the U.S. economy.

If the President can keep the Republican House and Senate, with their very thin majorities, unified then he can accomplish much. However, the Republicans are unlike the Democrats who march to the same drumbeat. The expression "herding cats" best describes the effort to get the Republicans to have unanimity on anything. Although, miraculously Donald Trump did it when he got the two House holdouts to vote for Mike Johnson to remain Speaker of the House.

The success of his second term depends upon the continued support of Congress. If the President can keep them in line then he can implement the three policies mentioned above along with tax cuts and rolling back regulations. It's a big "IF" but that would make the 47th President very successful.

**In writing this article, I relied upon AI for statistical information & other data.*

OUTLOOK

The last two years, 2023 and 2024, have been strong market years. There has not been a market correction (defined as a 10% pullback) since the bear market of 2022. The reason given for this outperformance is the incredible amount of government spending and money creation that eventually found its way to the stock market. This pattern is unsustainable; the economy over this period of time was up a more moderate 2.6% to 2.7% annually. As we know, the market ultimately is driven by growth of earnings, not by excessive government spending, so where do we go from here?

First of all, with a dramatic change in governmental policy, we are likely to experience more volatility. A 10+% correction is probable, but not a bear market because earnings should be steadily improving. If the new administration is able to get its policies implemented along with lower taxes and lessened regulations, that will bode well for the future. After some corrective action we believe that the year will wind up with a gain in the upper single digit to lower double-digit percentage. This view could always change as events unfold or due to an unforeseeable "black swan" type event.

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