

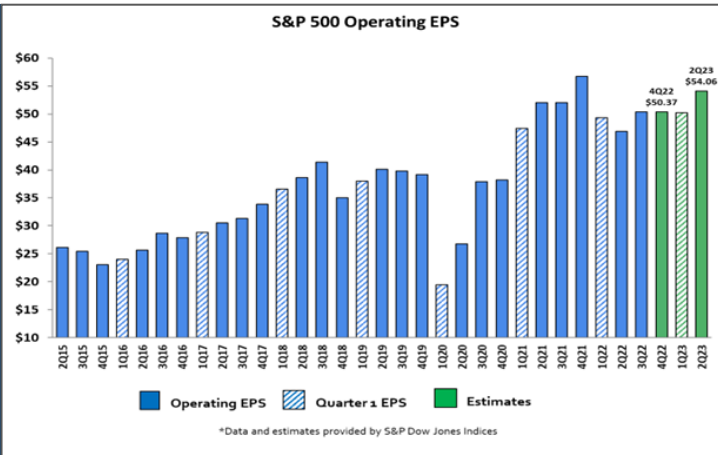


Market Musings

A newsletter brought to you by Victoria Capital Management, Inc.

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Even with the financial upheaval and the acceleration in the war in Ukraine, financial markets continue to weather the storm. After a rough 2022, NASDAQ has experienced double digit returns while other traditional market indices such as the S&P 500 and the DJIA are marginally in profitable territory. The important factor contributing to this performance is corporate profits.



“Investing should be more like watching paint dry or watching grass grow. If you want excitement, take \$800 and go to Las Vegas.”

- Paul Samuelson

Market Commentary

After a rough February for most global equity markets, March ushered in a breath of fresh air. Large cap stocks rose across the world while mid and small cap equities declined for the month but finished in the green for the quarter. In March, Japan and Taiwan led the way in Asia, France and Germany contributed to positive returns in Europe and Mexico was the outperformer in Latin America, based on the S&P Dow Jones indices. The leading sector across the globe was Information Technology.

Fixed income markets were also largely up for the month thanks to a decline across the Treasury yield curve. Volatility remained at low levels during March and is down almost 14% this year as measure by the VIX.

Is the Tax System Unfair?

Here we are in tax season again and digesting another proposed massive tax increase based on commentary from those in DC that the “rich” don’t pay their “fair” share of taxes. When questioning folks from around the country, most say the highest rate should be about 25%. The federal income tax system continues to be progressive, as high-income taxpayers pay the highest average income tax rates. However, these average tax rates don’t tell the story because most people don’t pay taxes at all. (About 72.5 million households—will pay no federal income taxes for the tax year 2022!) On the other hand, the top 50 percent of all taxpayers paid 97.7% of all federal individual income taxes, while the bottom 50 percent paid the remaining 2.3% in 2020, according to the latest data available. An important distinction is the difference between an average tax rate and a marginal tax rate. For example, taxable income that exceeds \$540,000 is taxed at a 37% rate, 50% higher than that magical “fair” rate of 25%. Those earning over \$216,000 pay 35% on additional income. You don’t get down to a marginal tax rate of 24% until your taxable income is below \$170,000. Then income taxes at the state, county and local level add to the tax burden. Proposals to tax wealth in addition to income is another ploy by the government to take more from private individuals who have built a fortune. There are also several states that impose a tax on individuals who move out of the state to another state. If you move out of the country permanently, you are required to pay an exit tax of 24% of your total capital gains for all property above \$2 million. This tax was imposed in 2008 because too many wealthy individuals were leaving the country and forsaking their citizenship -- probably due to higher taxes.

Investors must confront the challenges posed by an ever-rising tax rate. Bond investments whose income is taxed at ordinary income rates should be juxtaposed with municipal bonds that are tax free. In most cases, a municipal portfolio can be structured to avoid state taxes on income from those investments. The tradeoff should involve comparing the returns on such bonds versus a diversified portfolio of common stocks over reasonable time periods.

According to Renaissance Capital, a total of 23 equity initial public offerings (IPOs) have been priced in the U.S. year-to-date (thru 3/27) up 27.8% from the same period in 2022. The 23 companies raised a combined \$2.2 billion, up 5.6% from the same period a year ago.