



Smaller Government = Larger Gains

"When that debate prevents us from carrying out even the most basic functions of our democracy – when our differences shut down government or threaten the full faith and credit of the United States – then we are not doing right by the American people"

President Obama
State of the Union Address 2014

There wasn't much excitement about last week's State of the Union Address. The President told us how he had fixed the US economy, how American corporate profits are at all time highs, how the stock market is at all time highs, how millions of jobs have been created since he became President, how the housing market has turned around, and so on, and so on.

Like a true politician, Obama spun the facts to give the viewer the impression his Administration has done a great job of turning things around. If that is true, then why is his approval rating at a low 43%, one of the lowest for a President on record? (Source: CNN Jan 28, 2014).

It's because of what he didn't say, like:

- None of his priorities from his 2013 State of the Union made it through Congress
- The majority of these jobs he takes credit for are in the low paying service and retail sectors
- This economic recovery is the weakest on record out of a recession
- A record 47+ million Americans are using some form of food stamps (Source: US Department of Agriculture, Jan 10, 2014)
- In December, the numbers of first time home buyers hit a near-record low of only 27% of all existing home transactions (Source: National Association of Realtors January 23, 2014).

But what he also said/implied, was that to engage in debate is a hassle and takes too much time, so he will usurp the intent of the Constitution and go with executive orders. During our lifetimes, all Presidents have issued Executive Orders, some more than others, but this President takes the cake by implying he will bypass the process to get what he sees as his priorities passed.

The partial government shutdown and sequestration have helped the economy by dramatically forcing down the deficit and making room for capital to find its way into the private sector. In fact, the partial government shutdown which began the middle of the 3rd quarter didn't stop that GDP from being one of the best of the entire Obama administration, despite their claims it would lead to crisis.

Throughout history, there is more than enough evidence to support the claim that less government is a good thing for economies. At the start of his first term, President Obama asked Federal agencies to cut back on noncompetitive contracts, calling them "wasteful" and "inefficient." Things didn't work out as planned. In 2012, money spent on "no bid" contracts was up 8.9% since 2009 for a total of \$115.2 billion. (Source: Bloomberg Businessweek Mar 25, 2013).

A recent Gallup poll (Dec 5-8, 2013) which asked "What do you think is the most important problem facing the USA today?" With an open ended response (i.e. no choices), dissatisfaction with government ranked #1 at 21%:

1. Dissatisfaction with Government 21%
2. Economy in General 19%
3. Healthcare 17%
4. Unemployment 12%

(Notables way down on the list: Poverty 5%, Education 4% and the gap between rich and poor 2%)

Fiscal policy is currently decidedly anti-success, with regulations after regulations, coupled with higher taxes, have weighed down the natural forces that typically result in robust recoveries.

Despite all his efforts to remake America, and the obvious collateral damage, this still isn't the worst of times. Despite his claims, when he was sworn in as President the first time it wasn't the worst of times either. And while there is no doubt things have gotten better, one could only imagine how good it could have been if capitalism's animal spirits were allowed to be themselves.

While the "Blame Bush" mantra six years later still gets mileage, what I see developing is something more dangerous....."Blame Capitalism."

The efforts currently being made on the entitlement front, where living off a monthly government cheque and benefits is simply so good that actually going into the workforce means an actual reduction in income, along with more responsibility, more bosses, and more headaches.

This week the Congressional Budget Office (CBO) dropped a bombshell which didn't get a lot of press. It turns out the Affordable Healthcare Act (AKA Obamacare) is becoming less affordable each day. Initially, the CBO calculated that lost manpower with the program would be 880,000, but the latest number is a whopping 2.5 million!!!

Under the program, it would simply be financially better NOT to work because of all the benefits and tax breaks from the Federal Government. The millions of people that will choose not to work over the next ten years will cost the US economy more than \$300 billion. And who will bear that? Those actually working and paying taxes. Now that's what I call a "fair share."

So while the President continues to declare war on free markets and success in the name of social justice; the taxes, regulations and demonization only backfire with slow growth. Current fiscal policy is designed to enact social justice; it was never intended to provide widespread prosperity.

So it's not shocking Main Street is still so gun-shy. People are once bitten, twice shy now and are questioning why they should strive to overachieve?

The formula which is tried and true for decades still applies:

$$\begin{array}{c} \text{Job Growth} + \text{Job Security} \\ = \\ \text{Confidence in the Future} + \text{Confidence That Risk Will Be Rewarded} \end{array}$$

Stay tuned,

Vito Finucci
Vice President and Director
Investment Advisor

This information is not intended as nor does it constitute tax or legal advice. Readers should consult their own lawyer, accountant or other professional advisor when planning to implement a strategy. This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. This commentary is based on information that is believed to be accurate at the time of writing, and is subject to change. All opinions and estimates contained in this report constitute RBC Dominion Securities Inc.'s judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Interest rates, market conditions and other investment factors are subject to change. Past performance may not be repeated. The information provided is intended only to illustrate certain historical returns and is not intended to reflect future values or returns. RBC Dominion Securities Inc. and its affiliates may have an investment banking or other relationship with some or all of the issuers mentioned herein and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. RBC Dominion Securities Inc. and its affiliates also may issue options on securities mentioned herein and may trade in options issued by others. Accordingly, RBC Dominion Securities Inc. or its affiliates may at any time have a long or short position in any such security or option thereon. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada. ®Registered trademarks of Royal Bank of Canada. Used under licence. © 2014 Royal Bank of Canada. All rights reserved.