



And so it begins.....

"There is only one way to kill capitalism: By taxes, taxes and more taxes."
Karl Marx, Socialist

Even a good Old Russian socialist like Karl figured it out almost a hundred years ago. We've had confirmation many times over history, that socialism doesn't work, the latest being the recent European crisis. Ruining a nation's balance sheet is one thing, but even worse is squandering potential, especially that of the future generations and today's youth.

Now simply living within one's means has a sexy handle attached to it: "Austerity." But running out of money is just the start of fun and games. Usually by the time you get to that point, draconian options like higher taxes, more fees, and wealth confiscation has been implemented. Eventually politicians will face reality, or no wait, have no choice and be forced to cut their wasteful spending, or as it is now called – "implement austerity." But once people get used to handouts and a whole lot of "free" things, it's hard to get them back. The USA recently got a very small taste of austerity in the form of the reinstatement of social security taxes and sequestration.

The President talked about the devastating impact of sequestration and even went on a national tour touting the harsh outcomes of slowing government spending a mere 2%. Instead, what they got were a higher stock market, better home prices, better job creating, and a sudden boom in the Washington, DC market. Imagine if government spending was cut 5%, or 10% or even 15%? All the capital would reallocate back to the private sector which does infinitely better with it than government.

Recent IRS scandal aside (did you ever notice that when you put the words "The" and "IRS" together it spells "THEIRS"?), something happened in the last week which really sent a shot across the bow of Capitalism by the Obama administration. Apple CEO Tim Cook was summoned to Washington to testify before Congress on income taxes Apple pays.

It has officially begun.

Supposedly Congress was “shocked” to learn that Apple (and every other US multinational company) has for many decades used tax loopholes to shelter offshore held cash. While Apple’s \$140 billion cash hoard is well advertised, its practice of finding effective tax loopholes are perfectly legal, yet apparently unfair, when their creation was from legislation was passed by Congress!

But why start with Apple Computer? Apple paid a total of \$6 billion in taxes last year, making it by far the #1 in that category. Apple may be the greatest innovator in US history, and has had a solid track record of job creation. Let’s rewind the tape back 7 – 8 months and recall that the basis of the entire Presidential race was on spreading the wealth, making the rich pay, all under the umbrella of “fairness.” I don’t think anyone expected that to go this far?

The government has turned it’s eye to successful corporations who despite their achievements, will realize soon it will only be “fair” that they share their profits acquired over the years, and thus their cash balances.....with the general public. Despite the fact that countless congressman, senators, and Presidents developed the very laws over decades that allowed the companies in a perfectly legal fashion to do what they should do in a fiduciary fashion for shareholders, this government is looking to extract its pound of flesh which governments have let slip for many years, all to feed a junkie like spending habit. Because when the world is going broke, the government has no choice to find cash in every nook and cranny all in the name of fairness.

What was left unsaid is that Apple is just the first guinea pig in what is soon to be a long trail of wealth “redistribution” of “evil” companies who have used every legal loophole afforded them by US and International tax codes, in order to pad soaring spending habits.

The fact is that any competitive company (or individual) is going to pay as little in taxes as it can. Apple is not a tax cheat, but rather one of the greatest business success stories of all time. It’s not Apple that should be testifying, but instead Congress itself, not just for offering up one of the most complex, cryptic, burdensome tax codes in the entire world, but for their handling of tax payer dollars on the spending side as well.

The much advertised American Recovery and Reinstatement Act took almost a trillion (\$840 billion) dollars and on another of his road shows, the President (ad nauseum) used the phrase “shovel ready projects,” and how it was going to rebuild American infrastructure.

It was sold as a job creator? (It wasn’t)
It was sold as a dam and bridge fixer? (It wasn’t)
It was sold as a healer of the economy? (It wasn’t)

So now 5 years later when it seems that bridges in the USA are now collapsing on a regular basis, it's a good time to ask, where did the money go?

It became a giant honey pot of money that went to pet projects that had zero to do with shovels. Less than 4% of the stimulus budget went towards actual contracts, loans or grants for infrastructure.

Here's where some of it did go however:

- \$221,000 at the University of Indiana to study why young men do not like wearing condoms.
- \$389,357 spent at NYU to study why young adults drank malt liquor and smoked marijuana.
- \$850,000 researching how paying attention improves performance of difficult tasks.
- \$1,000,000 was spent in Ohio (you know, the one that was a big swing state in the election?) on road signs touting the stimulus program.
- \$14,707,949 was used to build an airstrip to nowhere in a community no one has ever heard of in Alaska.
- \$30,000,000 was spent to build new spring training facilities for Colorado and Arizona baseball teams.

Sadly, those stories are just the tip of the iceberg.

One in particular was the state of Washington which received \$8 billion from the federal stimulus project of which \$800 million went towards an ambitious high school rail project. Current costs exceed \$8 billion and now many wonder if it will ever get completed. I mention this because the last bridge collapse was actually in Washington State. Maybe the dollars should have gone to where they were intended? That same bridge had a c-grade and was highlighted for repairs. Maybe fixing that bridge which had almost 100,000 crossings a day was more important than a pet project that might or might not even get completed.

Ultimately, the White House and Congress need to look at themselves. Therein lies the problem. There's a huge likelihood that this is a discussion that is designed to bring up tax reform, not to fix it to make America more competitive in a global economy, but to fulfill an agenda to confiscate more saved wealth for itself.

A nation cannot cure structural deficiencies and living beyond its means by overspending, by simply printing more money or by changing a tax code. It won't happen overnight either, but overspending by inept (and often corrupt) politicians is the problem in the world right now.

Consider that next time a politician tries to scare you into joining his or her war of class envy.

Stay tuned,

Vito Finucci
Vice President and Director
Investment Advisor

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 Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund.