Pro@ctiveAdvisory
Interact With Your Advisor

Memorandum

To: Clients, Associates & Friends of Pro@ctive Advisory
From: Mark L. Wyssbrod, CPA
Date: November 12, 2014
Re: Lower gas prices! Higher taxes?

In this memorandum, you will receive information about the following:

- Lower gas prices! Higher taxes?
  - Federal and state governments may increase gas surtaxes
  - Oil prices to remain low for a significant time
  - Lower gas prices and a strong US dollar will boost mega-corporate American margins
- Long-term deflationary housing market

This world continues to intrigue me. The multiple moving parts in a local, national and global economy are more connected at times than we may realize.

<u>Lower gas prices! Higher taxes?</u>
Many individuals have noticed the lower oil prices, especially at the gas pump when filling their vehicle's tank. I have noticed the price falling from ~$3.50 a gallon to ~$2.80 a gallon and I am excited I have a few dollars of savings each time I visit a gas station.

The lower oil prices are from a combination of stronger US dollar and over supply. The world seems full of oil, which is opposite of six years ago when people fretted oil was going to run out during their lifetime.

It is estimated for each $0.01 the price of gas falls at the pump is the equivalent to $1 billion (that's with a "b") in the consumers' pockets to spend on other items (like holiday gifts!). Gas has fallen approximately $0.70; this could translate into $70 billion in additional monies for the holidays. It might be a very Merry Christmas!

However, the US is also facing multiple infrastructure issues and states are hungry for monies to fund projects. How will the federal and state governments solve their problems?

Prediction 1: I am predicting federal and state governments will increase their gasoline taxes to fund infrastructure projects (as long as gas prices remain low).

Prediction 2: I do predict low prices to remain low for a significant time. Why? I believe the US dollar will remain strong and the supply to remain high.

Prediction 3: I am predicting these factors will solve mega-corporate American's gross profit and net profit margin issues; that is it will help them remain at historical levels for a longer period than most anticipant. This will be possible to lower input prices and the ability to keep wages low, even with a 5.8% unemployment, since inflation is minimal.

To pat myself on the back, in January 2014 I predicted $80 a barrel oil prices. Review your e-mails to confirm or revisit the update on my website: http://www.myproactiveadvisory.com/news

Long-term deflationary housing market

Housing has recovered strongly in the past 18 months. So strongly and so quickly that it might actually be a negative factor for the long-term. I would not expect significant increases in real estate properties in long-term, especially compared to inflation.

Prediction 4: In fact, I am predicting a long-term deflationary housing market. Why? A stronger US dollar and lower oil prices and other direct costs will allow builders to be profitable, even at lower prices. Additionally, home builders have increased efficiencies and their input prices will decline. Moreover, the eventual increase in interest rates will pressure home prices. Also, wages are not likely to increase significantly.

Yes, the increase in interest rates will pressure home prices. People challenge me on this all the time. Individuals purchase homes, just as they purchase cars and other items, based on the monthly cash outflow. A mortgage payment is based on the interest rate and loan amount. The payment goes up if the interest rate and/or loan amount increases. The payment decreases if the interest rate and/or the loan amount decreases. If interest rate increases (which they are scheduled to do per the US Federal Reserve), and the monthly cash outflow payment stays the same due to minimal wage increases, then the loan amount needs to decline for purchasers to stay in budget.

Conclusion

You can take advantage of the current scenario. First, you can use the strong dollar to purchase more from foreign countries and commodities at lower prices. Second, you can use the savings from the gas pump to reduce debts and/or save. Third, you can use the current low interest rates to refinance current debts. Fourth, you can be patient and not feel like you have to rush into a real estate purchase decision.

Make the most of the current economic environment and plan for the future.