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WASHINGTON AFFECTS ECONOMIC GROWTH

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The new administration is well underway and there are changes in policy almost daily. Congress is facing a packed legislative calendar during the first 100 days. It may be hard for the average person to keep up. Let's review what we know so far and how it might affect the economy and investments.

The first pledge was to repeal and replace the Affordable Care Act (ACA). Republicans have promised swift action on this priority although they have not formulated a specific plan as of this writing. They are working on the details of a replacement plan that would allow individuals to keep coverage during the implementation of the new reforms. Once a strategy is approved, it could still take several years to eliminate the current version of the ACA.

The next top priority is regulatory reform. There have already been announcements about regulations ranging from FDA approval, corporate acquisitions, building codes, banking and even the Department of Labor client services rule that have been targeted. The theory is that less regulation will allow for higher growth. The question is will there be a negative outcome for the consumer. Most of these regulations were designed for consumer protection, whether it be keeping corporations from becoming so large there is no price competition or protecting investors' wealth through rules created out of the 2008 financial crisis.

Many financial analysts agree that while deregulation can spur growth in the short-term, it could add inflation and reduce consumer protection in the long run.

Tax reform was a major campaign promise that now has settled on the back burner. This is upsetting many major corporate CEOs who were welcomed to the White House in the first weeks only to find that tax cuts have been pushed into late 2017 at the earliest.

At first glance, the Republican outline shows the current 7 tax brackets being consolidated into 3 and some deductions going away. There is also talk of repealing the current estate tax but adding some capital gains for assets over a certain size. Again, this could spur some short-term growth but the question remains if this is sustainable given our deficit.

Stricter immigration policy could slow growth and increase inflation as we have fewer workers willing to work menial jobs for low pay. This along with a push for more infrastructure spending could stretch the employment picture forcing wages and benefits higher to attract

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more American workers to these jobs. This in turn could fuel higher costs of goods and services as businesses ranging from retail to construction have higher overhead.

Trade agreements among a myriad of other agenda items remain uncertain. Historically both fiscal stimulus (tax cuts) and protectionist policies have tended to boost inflation. Stimulus in the form of infrastructure spending typically provided the greatest benefit at the beginning of an economic cycle when unemployment is high and the economy has significant upside potential. The fact this is coming late in the cycle, when unemployment is low and we have been in recovery for eight years, is adding uncertainty that the outcome will be positive for America.

In summary, some of the new policies should spur economic growth but likely at the price of inflation, including taxing imports. Corporate earnings appear positive for the time being, but higher labor costs can put a damper on the length of the upward trend. Fewer regulations could lighten the cost structure of some industries, but not without additional risks to the consumer. Stay tuned….we are only a month into the new administration.

Patricia Kummer has been an independent Certified Financial Planner for 30 years and is President of Kummer Financial Strategies, Inc., a Registered Investment Advisor in Highlands Ranch. Kummer Financial is a 6 year 5280 Top Advisor. Please visit www.kummerfinancial.com for more information. Any material discussed is meant for informational purposes only and not a substitute for individual advice.