

## How a Tax Failure Could Topple the Market

Written by Rob Copeland

Tuesday, 17 October 2017 13:13 - Last Updated Tuesday, 17 October 2017 13:15

---

The stock market has soared by 18% since the November election. And the promise of corporate tax cuts has been one of the major reasons why.

Reducing the corporate tax rate to 20% from 35%, as President Trump wants to do, would directly boost companies' earnings. The expectation of this cut, part of a broad push to reduce both corporate and individual taxes to the tune of \$5.8 trillion over 10 years, continues to help fuel the market.

But what President Trump and Congress are not able to pass their big, ambitious package of tax cuts? In that scenario, I believe that the market could very well fall hard. Nor would the market be satisfied with a watered-down tax reform; I believe it would react by selling off.

The last tax overhaul took place 31 years ago, in 1986, under President Reagan. And there's a reason no sweeping legislation has been passed since then. Given the competing interests in Washington, it's always been hard to get the needed majorities in the House and the Senate to agree on the details of reform.

This time around, that task figures to be harder than ever, and much more difficult than the doomed push for healthcare reform. The reason is gridlock. Congressional gridlock used to be Republicans vs. Democrats; but now, Republicans can't even seem to agree with each other.

Some Republicans balk at any tax cuts that will increase the budget deficit, while others don't care. Republicans are divided about the estate tax, tax cuts for the rich, and other big questions. And they're certainly not likely to get any help from Democrats, who voted against healthcare reform as a block.

If tax reform fails, sophisticated investors who had hoarded shares of highly taxed companies (which they thought would get a big earnings boost due to a tax cut) will sell those shares. Companies that hired additional people because they expected a tax windfall will lay those employees off. The results could ripple through the economy and the market.

## How a Tax Failure Could Topple the Market

Written by Rob Copeland

Tuesday, 17 October 2017 13:13 - Last Updated Tuesday, 17 October 2017 13:15

---

How should you invest, given the possibility that tax reform fails? There's no one formula that will position you to make money but also to hedge against big corrections. The key to building an investment portfolio for uncertain times is to make sure that each individual stock, bond or fund in your portfolio passes the test of quality and price. And the best way to do that is to work with a qualified financial advisor.

Don't hesitate to contact us if you'd like a no-obligation portfolio review.