CAPITALISM and PROSPERITY in the U.S. PUBLIC MARKETS

From 1926 to 2016 balanced investors (50% stock + 50% bond) earned more than 4% annually after adjusting for inflation and expenses.* However, investors increasingly understand how difficult it is to achieve meaningful net returns, and many are now asking how that goal can be achieved in the foreseeable future, especially with the status of Quantitative Easing and other free market issues?

To partially answer this question, we must look at the current trend of our capitalist (free market) system as outlined below, and realize that structural changes are required to rebuild our prosperity - see extreme examples of corporate and social welfare.

Free Markets at Work

Economics ♦ **Can an idea work?** Private enterprise and entrepreneurs decide which industries, companies, or new ventures can provide an acceptable return in relation to their associated risk.

Finance ♦ **How can the idea be developed?** Private enterprise secures debt and equity capital.

Accounting ♦ **Was the idea successful?** CPAs document earnings or losses and book value in a basically objective manner, and investors collaborate their findings.

Free Markets at Risk

Economics ♦ **Governments increasingly decide which industries and companies to favor**, which generally has dismal results (autos, energy, finance, healthcare, housing, etc., etc.) and their involvement creates massive conflicts of interest.

Finance ♦ **Governments increasingly favor large financial companies**, which can result in acceptable returns with low risk, but other results are less capital to new ventures and less competition.

Accounting ♦ **CPAs document outcome in an increasingly subjective manner**, and investors do not have good, transparent data to collaborate their findings.

Corporate Welfare: The following is an excerpt from the 2008 General Electric Annual Report.

"The interaction between government and business will change forever. In a reset economy, the government will be a regulator: and also an industry policy champion, a financier, and a key partner." They further state that "there will be fewer competitors."

Their CEO, Jeffrey Immelt, was the Chairperson of President Obama's Council on Jobs and Competitiveness until 2013. GE is still one of the largest recipients of TARP loans and guarantees (up to $139 billion), pays nominal taxes, reduced lending to mid-size companies, and exported jobs overseas. In addition, they were recently named a major supplier to the U.S. government $7 billion "Power Africa" initiative and simultaneously listed as a "systematically important" company along with AIG.

Social Welfare: As of 05-31-11 the State of Wisconsin had borrowed $1.5 billion from the Federal Unemployment Trust Fund to cover extended benefits. On 09-30-11 it assessed state businesses $48 million interest due. On 10-24-11 a proposal to suspend jobless benefits to those who cannot pass a drug test was rejected by a state senate committee.

Midwest estimates that there is at least $600 billion in annual corporate welfare (a minimum of $300 billion just in the financial sector) and $200 billion in unnecessary social welfare. There can be occasions when commerce needs assistance and it certainly needs fundamental oversight, and society needs a basic safety net. However, the previous examples of government involvement will not sustain a healthy, free-market environment or a strong, educated middle class - and democracy depends on both! *Accordingly, we strongly encourage those concerned about our capital formation process, our competitiveness, and ultimately our civil liberties to commit to a particular cause to restore free and honest markets, and elect reform-minded officials who place America's interest before their own.*

*Sources: Ibboston Associates, Midwest Asset Management, Inc., Russell Investments, Standard & Poor's Corporation, Wilshire Associates.

Please contact us for details or suggestions. Ref: January, 2017 Research Brief.