
Most analysts see scant damage from fiscal cliff

By Editor Test *Mon, Dec 3, 2012*

Market prices should have little to do with the taxes paid on gains because prices are largely “being determined by tax-exempt investors and by foreign investors,” said Eric Toder, a co-director of the Tax Policy Center.

In an [article](#) in today's *New York Times*, hedge fund manager Douglas Kass of Seabreeze Partners Management, urged investors who are anxious about possible tax increases on investment income to “relax.”

Similarly, economists interviewed by the Times suggested that the impact of fallout from the so-called “fiscal cliff” has been overestimated. One reason is that, according to the Investment Company Institute, only 14.7% of American households have taxable mutual fund accounts, down from 23.9% in 2001. A

n increasing proportion of the entire equities market is now held by retirement investors whose holdings are not subject to current tax law; by foreign investors who don't pay American taxes, or by institutional investors like insurance companies and pension funds that are exempt from taxes, the *Times* said.

Sam Stovall, the chief investment strategist at S&P Capital IQ, said that many individual investors with taxable accounts have incomes under \$250,000 and would not be subject to the increased rates on investment income proposed by the White House.

The largest of the foreseeable changes in tax law are not on investment income. The looming increase in the payroll tax could remove \$95 billion from the take-home pay of Americans.

About 41% of households have mutual funds in tax-exempt accounts, but only some of these have income over \$250,000 a year, and some have their money in tax-advantaged accounts.

Foreign investors controlled 12.4% of American stocks in 2011, up from 8.8% in 2004, Treasury Department data shows. Among the stocks that are held in the United States, 48% are held directly by households, down from 65% in 1988, according to Federal Reserve figures.

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Credit Suisse analyst Andrew Garthwaite estimated that a reduction of 5% in the value of the Standard & Poor's 500-stock index could occur—and may already be partly incorporated into stock prices. Kass of Seabreeze Partners estimated a market correction of 0.8% to 1.6%.