How to Trade a Second Tax Cut Now

Six months ago, President Trump signed the Tax Cuts and Jobs Act.

> "Six months ago, we unleashed an economic miracle by signing the biggest tax cuts and reforms," Trump said, as quoted by Real Clear Politics, lauding "six months of new jobs, bigger paychecks and keeping more of your hard earned money where it belongs, in your pocket or wherever else you want to spend it."

Half a year into the cuts, the economy is on sound footing, despite fears of a trade war. Unemployment is at multi-decade lows. Even corporate stock buybacks are reaching record highs, sending markets to unbelievable heights.

In fact, U.S. companies announced a record $201.3 billion in stock buybacks and cash takeovers just in May 2018. Apple for example pledged to purchase $100 billion worth of its own stock after spending $22.8 billion buying back its own stock in the first three months of the year.

Micron Technology spent $10 billion on buybacks.

Qualcomm spent $8.8 billion.

May's buyback announcement continues a trend that started in the first quarter of the year, as companies spent $178 billion on buybacks, topping a record high of $172 billion set in 2007. That all follows news of the corporate tax law that reduced the tax rate from 35% to 21%.

And there is no sign that the trend is slowing.

Wells Fargo for instance just announced it would buy back up to $24.5 billion of stock and boost its quarterly dividend.

Some companies have even shared the tax savings with employees.

Wal-Mart and Wells Fargo, for example, devoted a good portion of their tax savings to raise wages and benefits for their workers. Comcast and Bank of America rewarded workers with one-time bonuses, too.

While some say the boom may be nearing an end, we're not so sure.

In fact, President Trump is talking about even more tax cuts by October 2018. As he explained the other day, as quoted by Vox.com:

> "We're doing a phase two. We'll be doing it probably in October, maybe a little sooner than that. And it will be more of a middle class — we did a lot for the middle class, but this will be more aimed at the middle class. One of the things we're thinking about is bringing the 21 percent [tax rate for corporations] down to 20. And then, for the most part, the rest of it would go to the middle class. It is a great stimulus."

Of course, this would be great news for small caps again.

In fact, according to the NASDAQ site:

> "The tax cut from 35% to 21% is a big boon to small caps as these pay higher taxes with a median effective tax rate of 31.9%. In comparison, the larger, multi-national companies on the S&P 500 pay a lower median effective tax rate of 28% while the tax rate for 30 mega-cap stocks on the Dow Jones Industrial Average is even lower at 23.8%. Additionally, the strengthening economy is providing a boost to the small-cap stocks that are closely tied to the U.S. economy and do not have much exposure to the international market."

To trade the potential for a second tax cut, which would greatly benefit small cap stocks, there are two interesting trades.

One, we can buy the Direxion Daily Small Cap Bull 3x Shares (TNA) along with the SPDR S&P 600 Small Cap ETF (SLY).

Or, if you're looking to trade options on upside potential, we can buy to open the IWM September 21, 2018 169 calls and/or the IWM September 21, 2018 170 calls.