Economy Facing High Stakes Political Standoff

October 2013

We are witnessing what can only be described as a high stakes political stand-off in Washington, D.C.

The partial-government shutdown is one thing, but as we approach October 17th - all eyes are on the nation's debt ceiling and whether the U.S. will default on our national debt.

The debt ceiling is the total amount of money the U.S. government can borrow (by selling Treasury bonds) to pay its obligations, including interest on the national debt, Social Security and Medicare benefits, and many other payments.

The Treasury has told Congress and the President that the country will run out of money on October 17th if the debt ceiling is not increased. The last major fight on this issue occurred in August 2011 - Congress took the country to one hour before we defaulted on our debt, gold rose by $300 per ounce, equities had a wild ride and ended the month significantly lower.

The political posturing continues with the White House and Congress and now many are asking the question: will the government run out of money to pay its bills?

It is difficult to imagine that the politicians and President would permit this to occur. Such a move would greatly harm our nation and send a troubling signal to the rest of the world. I certainly don't have a crystal ball, but it seems highly unlikely that the U.S. will default on our debt in the days ahead.

Despite how ugly the politics in Washington becomes, we will get through this month.

In fact, all of this may actually lead to some encouraging investment opportunities. The economic uncertainty in Washington could trigger some volatility in the markets, resulting in lower stocks prices and some excellent buying opportunities.

At the same time, Wall Street is likely to continue to react positively to the Federal Reserve's policy of buying billions of dollars a month of government debt. Many expected the Fed to slow the money flow in September. That did not happen.

And there's something else to keep an eye on with the economy. Corporate earnings for the 3rd quarter of 2013 will begin to be reported this week. While many experts are expecting disappointing results (reported earnings that have gone up slower than the company's stock price this year), I am not convinced those numbers will have a dramatic impact on the markets. What's clear to me is that most will be focused on the future earnings estimates of the companies - with a sharp eye focused on the 4th quarter of this year and into 2014.

It may be a bumpy time ahead for the short term. But it's our view that equity markets will continue to advance through the end of this year.

As always, we remain dedicated to providing you with prudent and a balanced approach to investing in this economic climate. We continue to monitor your portfolio and remain committed to providing you with the best advice and analysis possible.

Please don't hesitate to contact us with any questions or concerns.

Sincerely,

George M. Kapusta, CFP

President