How much more can they dent that can? October 18, 2013

In the summer of 2011, Congress brought us to the brink of default, with the delusional thought that a default on the US Debt would be good for the world. Well, they did it again. To make matters worse, we may be back at this same brink in three month's time.
Certain members of Congress seem to have cut their economics class one time too many. Stopping the US government's ability to borrow does not, and will not, decrease the federal debt.

The debt ceiling is not a vehicle that can be used to control the budget.

The debt ceiling must be raised to pay for what we have already spent. Not on future expenditures, but on obligations that Congress has already committed us to. It is like buying a new car and driving it out of the showroom, and then deciding not to pay for it. You bought it, you own it, and so you must pay for it. If you cannot afford it, do not buy it in the first place. This is Economics 101 and every member of Congress should have to prove that they passed this course in college. You can change the future but you must deal with the past as it is.

It is true that as a nation, we do need to cut spending and unfortunately raise taxes to get our annual budget under control. However, once we promise to buy something, we must pay for it.

Ben Bernanke, Chairman of the Federal Reserve (Fed), has been doing whatever is in the Fed's power to do to keep our economy growing. It is growing slowly, but it is still growing, regardless of (or maybe despite) how much Congress is trying to shove us into a recession.

Mr. Bernanke's term is set to expire in January. It now seems likely that Janet Yellen, Ph.D., the current Vice Chairman of the Fed, will be selected by President Obama to succeed Bernanke as the next Chairman. This is good news, since most observers believes that she is more worried about jobs than inflation, and therefore will be likely to maintain the Fed's stimulus program until the economy can really stand on its own.

From our perspective, it is important to understand what a continuation of the Fed's policies means for equities markets. As long as the Fed retains its current position, it acts as a stimulus for our economy, offsetting the uncertainty created by Congress. Uncertainty throws a wet blanket over any direct market growth, since companies and consumers become more reluctant to spend when things are unstable. However the Fed's policies are so far buffering the negative effect that Congress is creating.

Our overall outlook remains cautiously optimistic on the market, with a hope that before the next debt ceiling crisis, a bipartisan budget might emerge and a new bull market will go into full swing. If not, we should continue to creep along economically and this growth will keep high dividend stocks a better long term investment than bonds.

As always at this time of year, we will try to take advantage of any tax harvesting possible during the last quarter of the year. We do have some positions that have disappointed and in those cases we will try to recognize those losses to save on taxes. And finally, we will continue to tweak our accounts based upon our ever-evolving outlook for the future.

May you all enjoy upcoming the holiday season and as ever, if you have any questions, please feel free to call.

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