

## Investment Policy in Light of Post-Debt Crisis

On August 2nd, 2011, President Obama quickly signed the **Budget Control Act** (Senate 365 as amended) after passage by the Senate 74 to 26. The House passed its version one day earlier by a vote of 269 to 161. The new law raises the debt limit to avoid a projected August 2nd default and creates a bipartisan joint select committee on deficit reduction. (source: Yahoo Finance)

We try not to be overtly political as we deal with our clients, realizing that each person has their own unique views and beliefs. Yet we feel compelled to offer our perspective on these most recent debates as well as our perception as to its effects on the stock market. Without having to preface each point with, "in our opinion", please know that these **nine points** are, "our opinions":

- 1- The markets have rallied nearly 90% off the lows of March, 2009. Volatility and even corrections (defined as a 10% drop) are inevitable. (source: Yahoo Finance)
- 2- There is little concern that the US can't pay its bills. This was a political event, not a financial one.
- 3- The professionals at Henry Wealth Management believe in building investment portfolios via a "passive investment strategy". The bedrock of this belief system is to globally allocate assets\*\* in a proper stock-to-bond ratio, based on one's goals, time frames and propensities to risk. Once an allocation is chosen, unless there is a bona fide change to a one's goals, we need to **stay invested!**
- 4- It is an easy decision to get out of the markets- fear is a compelling driver to help pull that lever. It is not knowing or frankly, having the courage to get back in at the right time that kills returns. The 90% run up mentioned in point 1 assumes that investors were "in" at the bottom, not "back in" at some point along the ascent.
- 5- The current sell-off and market drop seems to be overdone and overly dramatic, driven by politically-charged fears and fueled by non-stop media coverage. Investors won't be satisfied for any length of time sitting in low yielding treasuries. I wonder if those

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\* <http://www.creditcards.com/credit-card-news/credit-card-industry-facts-personal-debt-statistics-1276.php#Credit-cards> Refer to "Credit limits and usage" section.

\*\*Using asset allocation as part of your investment strategy neither assures nor guarantees better performance and cannot protect against loss of principal due to changing market conditions.

who bailed out will get back in after things "calm down" (*good luck defining that*) and after stock prices rise to ensure that their exit and re-entrance only serves to lock in losses.

6- Pundits can't have it both ways. The two recent and massive "Keynesian" stimulus **spending** packages, dubbed "*Quantitative Easing 1 and 2*" seemingly have not helped our economy. Others now say that **cutting spending** will hurt the economy. Well, which is it? For us, we allocate assets for long-term purposes and thus, despite short-term polar opposite rhetoric or actions, do not want to be derailed in our approach. *Footnote: The Budget Control Act does not actually cut spending- it only reduces the amount of scheduled annual increases.*

7- **On a positive note;** We do like the fact that an emerging voice in our nation's capital appears to be supportive of a shrinking government and true spending reductions. Credit card usage and balances by consumers is certainly trending downward.\* Our government needs to follow suit. We believe this will help our economy and financial markets over the long-run.

8- **On a positive note, #2;** Talk of a balanced budget amendment is nearing a fever-pitch. Hopefully term limits for Congress will not be far behind. These two items could help immeasurably! It's all about incentives, which present members of Congress do not have. Many seemingly vote to keep their jobs and cater to their largest donors. Taking away lifetime jobs and forcing them to live with a balanced budget may allow them to do the right things for the right reasons without the repercussion of a re-election loss. Again, we see this as helpful for our economy and financial markets.

9- **On a positive note, #3;** None of our clients to date, have requested to alter their allocations or re-position to cash based on the debt crisis. Hopefully reading this memo once and then twice, will serve as a refresher to continue to stay the course. We look for continued growth and optimism to return soon.