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MULTOP FINANCIAL'S REVIEW OF THE DEBT-CEILING CRISIS

Political analysis isn't part of our role as financial advisors. What *is* our role is to stay properly informed, and to pass that information on to you. To that end, we want to make sure you understand what's happening, and how it affects you.

You've probably heard about the U.S. debt-ceiling crisis, but you may not have heard about the steps the government has taken to solve it. The media has floated around a lot of terms like "Super Committee" and "trigger mechanism" and unless you're following closely, it can be hard to know just what exactly is going on.

In early August, Congress was embroiled in a bitter debate about the U.S. public debt nearing the so-called "debt ceiling." Simply put, the debt ceiling is the utmost limit that the public debt is allowed to reach. Under normal circumstances, the ceiling is decided each year by Congress with a minimum amount of fuss. However, this year the decision was made after intense arguing in Washington. On August 2nd, Congress voted in favor of, and President Obama signed, the 2011 Budget Control Act, which raised the ceiling by \$400 billion dollars through 2013.

Raising the debt ceiling was not the only thing the Budget Control Act did. Recognizing their solution was temporary, Congress also mandated a deficit reduction plan that would find \$1.5 trillion in budget cuts over the next decade. To come up with this plan, Congress authorized the formation of a special committee titled, The Joint Select Committee on Deficit Reduction, referred to in the press as the "Super Committee."

The plan went like this: There would be twelve members total, six from the Senate and six from the House. The twelve would be equally divided between Republicans and Democrats. Because of the small size (as compared to the 535 members of Congress), it was thought that the committee would be better able to come up with a plan that would satisfy both parties. Dialogue, debate, and research could be carried out with more cooperation and less partisanship. The committee's plan would be recommended to Congress as a whole, and it would be immune to most of the tactics politicians use to stall a bill they don't want passed.

Unfortunately, the committee failed. By November 21st, the committee admitted that no plan could be decided upon, and indeed much of the committee's time seemed to be spent pointing fingers at each other.

As you can imagine, the markets didn't take the failure very well. Before the committee had even announced the news, all three major indexes fell more than 2%, based on rumors of the impending

admission, with the Dow hit especially hard, at times tumbling over 250 points. It's impossible to predict what the markets will do next, but we think it's a safe bet that as long as Congress seems incapable of action, investors will continue to be jittery. Another worry is that credit-rating agencies like Moody's and Fitch will downgrade the U.S. debt, much like the S&P did back in August. While it's unknown what direct consequences these downgrades might have, it's certain that they would contribute to the public's lack of confidence in the economy, thereby driving the markets even lower.

Similarly, we don't know what Congress is going to do next. The Budget Control Act specified that, should the committee fail to come up with a plan, across-the-board spending cuts equaling \$1.2 trillion would be *automatically* enacted. This is the "trigger mechanism" you might have heard about. While these cuts would reduce the deficit, it's not something that either party wants. "Across-the-board" means exactly that: cuts would come out of both defense and non-defense spending. Given the fact that 2012 is an election year, neither party wants programs they consider sacred to lose out. It's possible that Congress will attempt a handoff and vote to eliminate the cuts, meaning that the debate will be postponed, yet again, for another year.

Sometimes it can be difficult to find a silver lining in this news, but we want you to know that Multop Financial is working constantly to find ways to protect your money. We don't know what the markets will do, and unfortunately we can't control what Congress does, but what we *can* control is our approach to investing. We are constantly evaluating that approach, to make sure that it works for you. We'll continue to stay up-to-date with the latest news and developments, and pass on what we learn to you.

