

## Déjà Vu

It seems like every year we have to brace ourselves for a shock to the market because our politicians are acting like... politicians! Let's briefly review the past few years.

In 2011, Republicans attempted to use the debt ceiling as a leveraging point for deficit reduction. The delay in raising the debt ceiling resulted in the first downgrade to the United States Government's credit rating. In 2012, we had to endure the European Debt crisis and our own Fiscal Cliff at the end of the year. We were supposed to hit our debt ceiling in October, but the Treasury department avoided the crisis by taking "extraordinary measures" to fund the government's expenditures. 2013 began without a budget (the new budget and taxes went into effect on January 2nd). Then we had to deal with sequestration in March. Now we are dealing with partisan politics, as both parties fight about next year's budget and the government's debt ceiling.

### What's Going on Now?

- The U.S. Government operates on a September fiscal year. Congress is trying to pass a new budget for 2014 (October 1, 2013 through September 30, 2014).
- If Congress doesn't pass a new budget (or at least approve a temporary spending bill) by October 1st, parts of the government will shut down.
- October 1st is also when the next round of "sequestration" cuts automatically take effect if there is not a deal to dramatically cut government spending.
- The last time there was a government shutdown was in late 1995. The S&P 500 dropped -3.7% during the three week shut down. It rose by over 10% in the thirty days after the crisis ended.
- According to the Treasury Department, unless Congress raises the debt ceiling the government will run out of money to pay its bills on October 17th.
- The current debt ceiling is \$16.699 trillion.

### What's The Impact To Me?

The markets don't like uncertainty. The stock market has been dropping over the past week due in large part to the uncertainty of Congress passing a budget. If Congress does not pass a budget and the U.S. Government does shut down, the stock and bond markets would most likely react poorly to the news. This would most likely cause a temporary downturn in the markets, but many things could happen in the market as a result of a shut down.

Critical services would remain operating (postal services, military, air traffic control, FBI, CIA, IRS, social security, etc.) but most federal government offices would be forced to close temporarily. It is estimated that 1.2 million government workers would be furloughed without pay (out of the 2 million) in the event of a shutdown. This could affect you getting your passport, going to a national park, or getting a government sponsored loan, for example.



# The Polaris Perspective

For more information or to schedule an introductory consultation contact us at: [info@polariswealth.com](mailto:info@polariswealth.com) | (800) 268-9046 | [www.polariswealth.com](http://www.polariswealth.com)

## What is Polaris Wealth Doing?

We are currently slightly under-weighted to our stocks and bonds allocation in all portfolios. We have shortened the duration of our bond exposure, with most of these holdings having durations of 2 years or less. The remainder is temporarily in cash as we defend against any short-term reaction in the markets. In most cases, the market will quickly react to Congress's actions. If uncertainty is removed (i.e. – a budget is passed) the markets will most likely move up. If Congress forces the government to shut down, the markets will most likely drop. In most financial crises, there has been a temporary dip in the market. This could represent a good buying opportunity.

Polaris Wealth has successfully navigated these difficult past events with care and diligence. While we are unwilling to guess what will happen next, we are ever vigilant of our changing circumstances. We have already proactively positioned your portfolio and have plans in place to reallocate your positions based on the decisions that Congress may make in the coming days.

As always, we look forward to hearing your comments. Please feel free to call or write back.

Sincerely,

Jeff