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MARKET COMMENTARY October 29, 2013

Dow Jones Industrial Avg.	**15,129.67**	**Standard and Poor's 500**	**1681.55**
2013(YTD) +15.46%	3d Qtr. +1.48%	2013(YTD) +17.91%	3d Qtr. +4.69%

Government Seized Up - "We acknowledge our transgressions, our shortcomings, our smugness, our selfishness, and our pride. Deliver us from the hypocrisy of attempting to sound reasonable while being unreasonable." - Barry C. Black, chaplain of the U.S. Senate, in a morning invocation during last week's budget battles. (New York Times, October 7, 2013)

Road to No Where – If investors take one lesson from the Punch and Judy show staring the President and the Congress, it is that the financial markets are relieved the charade lasted only two weeks. Once the media-hyped struggle passed, the stock market quickly recovered lost ground. Sadly, no agreement or compromise of consequence was achieved, so we can expect a repeat performance by the same Washington cast early next year. The only question is whether or not the ritualistic dance by our elected officials had any meaningful impact on either the country's economic growth or our financial status in the world. Judging by the reaction of the stock market, the government shut-down was merely a bump in the road. It seems to suggest what happens in Washington matters only to politicians – and the media. Those of us in the hinterlands need pay little attention to their partisan bluster.

A Status Quo Economy – In spite of the fact the economy has allegedly been in recovery mode for more than four years, growth continues to hover around two percent. Some economists have predicted growth in the third and fourth quarters may be penalized by as much as 0.5%, however the track record of such experts has been spotty. What is hard to dispute is the inability of our government to provide any positive policies to extricate us from this economic mire. President Obama tried his $800 billion stimulus a few years back. FED Chairman Bernanke attempted to work his magic by forcing interest rates to record lows and then by having the Federal Reserve buy more than $1 TRILLION of U.S. government and federal agencies securities, better known as Quantitative Easing (i.e., QE). Q.E.1 was followed by Q.E.2 and then Q.E.3 with two objectives in mind: to encourage borrowing by business and consumers by lowering interest rates and to encourage risk-taking by investors by making fixed income investments less attractive. Chairman Bernanke's buying spree is particularly controversial because the purchase of the securities is paid for by printing new money, which some economists fear might spark an inflationary spiral. A second complication looms when the FED terminates its buying program. The fear is interest rates will spike higher because of the void created by the departure of such a major buyer. These extraordinary efforts have failed to achieve the desired goals of accelerated economic growth and meaningful growth of employment. At best, they prevented more serious problems.

But wait! There's more!! Washington is responsible for the brief government shut-down and whatever fallout is associated with that. It is almost too easy to conclude it was entirely due to the intransigence of the Tea Party wing of the Republican Party, when in reality it was a group effort. If we are honest with ourselves, President Obama, Senate President Reid, and Speaker of the House Boehner have the power and the votes to craft an agreement with or without the Tea Party mavericks. Our elected leaders need to be reminded they have been sent to Washington to advance the nation's interests and not only their own political and personal interests.

Of more immediate consequence is the turf battle over the disastrous rollout of Obamacare. The President may jeopardize his signature accomplishment unless he is prepared to negotiate with the opposition; however that will require him to placate fringe elements within his own party. The massive enrollment snafu combined with the escalating costs resulting from the individual mandate and the business penalties threaten to cause the whole colossus to collapse. What then? A very costly, unwieldy healthcare system will be replaced with chaos. The fault will not be with the Tea Party, it will be with those who designed this flawed monstrosity and those in a position to craft a compromise able to pass both houses of Congress. It falls on the shoulders of the President and the leaders of Congress who control the levers of power to hammer out an acceptable agreement.

… And That Ain't All – There are two other initiatives they need to address to help put the country's economy back on the right track. The sooner they are addressed, the better off the country will be. First, the tax code requires major surgery. Our politicians have managed to construct a tax system that would mystify even Rube Goldberg. The time, effort and expense required to comply with the tax code has become onerous – unless you are among the 47% who paid no income tax in 2011 based on an analysis by the Tax Policy Center. Think about it for a minute. Pick a crowd, any crowd – on the beach during the summer; at the Cape Cod Mall; a traffic jam on Route 6 - nearly one out of two pay no income tax! Does anyone really believe the President, who is forever promoting fairness, can defend this system? Undoubtedly specific groups will be required to pay more and many of them are business interests employing legions of Washington lobbyists. Radical surgery might prove too traumatic for this halting economic recovery, yet phased changes could be instituted as early as next year. The compromise is evident – more taxes from businesses and individuals on the upper end and a scaling back of all the tax breaks including credits, which allow so many middle class citizens to pay little or nothing. These changes will allow tax rates to be lowered, yet still raise enough revenue to lower the deficit.

Dropping the Other Shoe - The other initiative which needs to be addressed sooner than later is entitlement reform. Social Security, Medicare and Medicaid are under increased stress. Medicaid, in particular, has been dealt a severe blow to the solar-plexus with the imposition of Obamacare. Tens of millions of individuals are being forced into a program that is already on life support. There has been little thought about how the care for new enrollees will be funded much less who is going to provide the care. Many physicians already refuse to treat Medicaid patients, so how is the addition of 20-30 million more patients going to impact the system? Isn't it likely Medicare patients will see the quality and quantity of their care negatively impacted? The likely result is we will all be paying more for less care and those in the healthcare field will be expected to compromise the level of care they provide. This will be the unfortunate consequence of the dramatic increase in the number of patients they will be required to treat due to the requirements of the government and the insurance companies. Maybe Congress should have read the legislation <u>before</u> they passed it. Prepare for a bumpy road ahead.

Investors Immune to Ills – As has been the case thus far this year, investors have had the benefit of the wind at their back. Undaunted by the fragile economic recovery and the high jinks in Washington, investors have continued to benefit from a strong upward trend in stock prices. The primary catalyst has been persistent low interest rates. (Thank you, Mr. Bernanke) To cope, investors have spent the past few years attempting to identify a safe and secure alternative. Finally, in desperation, investors have decided they have no choice except to accept a greater level of risk in hopes of achieving a better return. So far this year, it has worked out well. However, it is worth remembering the stock market carries no guarantees, and at some point there will be a reversion to the mean.

Year-End Strategies - If you have IRAs and have reached 70 ½, you must take your Required Minimum Distribution (RMD) based on the total of <u>all</u> of your IRAs before the end of the year. Another suggestion is to take advantage of any capital losses carried forward by offsetting them with gains taken earlier in the year or gains realized before year-end. You may also be able to write-off as much as $3,000 of losses on your income taxes. We aim to make tax efficient decisions on your behalf, but we may not be aware of tax situations outside of our purview. You may decide to make gifts to children or grandchildren before the end of the year. The gift tax exclusion is $14,000 per person for 2013. Remember your favorite local charities as well. They will be most appreciative of your support. Given the stock market's advance this year, it may be worth considering making any gifts to charities with appreciated securities. This allows you to write-off the full value of the securities while avoiding the gain you would incur with a sale. Be sure to check with your accountant or tax adviser regarding all of these matters.

Enjoy your Thanksgiving and have a Happy Holiday Season. --JML