

As we rapidly approach a 4th threat to shut down the Federal Government since the start of the year, I thought it might be appropriate to find out what that would mean to all of us as Americans. I found an interesting little slide show that bullet points the effects of a shutdown rather graphically on the Huffington Post and a Washington Post article about the same which cites the Congressional Research Service.

http://www.huffingtonpost.com/2011/04/05/federal-government-shutdown-2011_n_845164.html#s261490&title=Lost_Money

http://voices.washingtonpost.com/federal-eye/2011/02/government_shutdown_facts_and.html

Each of these articles points to some marginal effects which may not be noticed by the average American at first but will be noticed immediately by the poor, the unemployed and businesses and localities that depend on a federal agency or institution remaining open. It would immediately impact tourism at National Parks, for instance. In a matter of a week, it would impact almost every American. Lost wages for federal employees, benefits for Seniors, veteran's benefits, mortgage filings, almost every aspect of our lives would see some impact. And all of this at a time when the economy is still struggling to right itself after the worst recession since the Depression. With gas prices rising and the middle east in turmoil, Americans are not feeling very confident these days. Although inflation is rather tame (with the exception of Gas and food prices), the Federal Reserve still worries about this issue, an issue we discussed in a previous set of emails. And because the Fed is worried about inflation, its monetary policy is oriented toward fighting inflation even with the unemployment rate still high but finally coming down. Fighting unemployment requires an infusion of money, either private or governmental, to continue to prime the pump to generate jobs and business activity. Much of the Federal stimulus is drying up while corporations continue to sit on some \$2 trillion in cash. The American economy can ill afford an action which will suck money out of the economy in large amounts. As the articles point out as much as \$8 billion a day could evaporate if the government ceases to operate.

How will Americans respond to this event, if it happens, is anyone's guess. In 1995-96 when the last shutdown occurred, our economy experienced little impact long term. But we were in different circumstances then with a robust economy and stock market. Even so, the Consumer Confidence level fell 10+% during that shutdown.

As always during these strange times, I will be watching the market and economy and alert you if I feel we need to do anything defensive. But it is worth noting that since the 2008 crash the market has recovered almost completely. So, dramatic market gyrations should be kept in perspective. Just recently we experienced an almost 10% drawdown (10% drops are called corrections) which lasted all of 3 weeks during March.

Call me if you have any concerns you would like to discuss.