

Financial Focus

SPECIALIZING IN WEALTH MANAGEMENT AND RETIREMENT INCOME PLANNING

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Notable Quote

"Education without values, as useful as it is, seems rather to make man a more clever devil."

~ C.S. Lewis

A Looming Crisis? (part 2)

In my last newsletter, I wrote about concerns regarding our economy and national debt. I'm not a doomsdayer, but for the past few years have been concerned. When looking at the fundamentals of the national debt to GDP ratio, concerns are growing. America is heading toward an unsustainable fiscal course that could become extremely difficult if not impossible to correct.

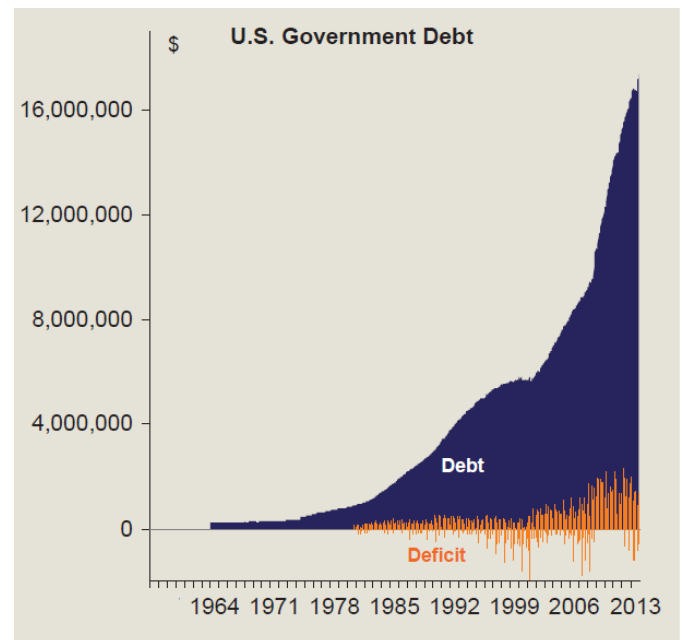
It's easy to become complacent regarding our national debt, now around \$18 trillion. Nothing seems out of place and the economy seems to be humming along fine so we think all is good... or is it? It's as though we've become accustomed to this high degree of debt.

In my opinion, there are aspects of the economy that are not doing as well as what much of the media and the President (after hearing his speech) may be communicating which could further exacerbate this issue. We have high underemployment. Wages have not kept pace with inflation. Unemployment seems to look good but that doesn't factor in the multitudes who have dropped out of the labor participation rate because they gave up looking. It looks like a new normal for many is a 30 hour work week because that's all they can find. And discretionary income has been decreasing.

The debt to GDP ratio is already out of hand and if it worsens then we could be in for a major shakeup. We are a consumer driven nation (not export driven like so many other countries) that depends on the prosperity of our own people. We're also now

experiencing some deflation which increases the debt to GDP ratio and this is not good.

In July 2013, the federal reserve changed the way the GDP is calculated. I think their hope was/is to make the numbers look better. A positive consumer confidence and shuffling around GDP numbers can last for only so long.



Source: ING Global Perspectives Factset

Below are quotes from the U.S. Government Accountability Office, Long-Term Fiscal Outlook. They seem to be sounding the alarm yet few are listening.

The passage of time has only worsened the situation: The size of the challenge has grown and the time to address it has shrunk. The longer we wait, the more painful and difficult the choices will become, and the greater the risk of a very serious economic disruption. 01/29/2008

The federal government faces increasing pressures yet a shrinking window of opportunity for phasing in adjustments. 06/17/2008

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These dates call attention to the narrowing window.... Absent action, debt held by the public will grow to unsustainable levels. 06/17/2008

The longer action to deal with the nation's long-term fiscal outlook is delayed, the larger the changes will need to be, increasing the likelihood that they will be disruptive and destabilizing. Fall 2009 Update

With the passage of time the window to address the long-term challenge narrows and the magnitude of the required changes grows. Fall 2010 update

It's past time to elect officials that will tackle these issues (and it won't be easy) rather than to continue kicking the can down the road. If we don't, we could see it rise to unsustainable levels. I hope you vote and vote for those willing to take right action.

Though difficult to time such an event, at some point this becomes an irreversible problem if not dealt with. I don't know exactly what it would look like or if it will come to fruition in weeks or years but this nation could face some serious challenges if we don't change course and have an ongoing strong economy.

No one knows exactly what it would look like if a crisis point hits: Will the dollar be devalued or could it collapse? Will precious metals rise? Will cash be king to take advantage of depreciated assets? Will stocks of companies producing needed goods rise? Will real estate (commercial, land, homes) fall? Will leveraged assets see a good number of foreclosures? And on and on.

I'm not trying to strike fear or panic, nor am I saying this crisis will occur - I'm simply saying the potential is now there and it's time to consider preparing for potential contingencies.

I hope a crisis never comes to fruition and that we grow ourselves out of this mess. If the markets keep going straight up averaging say 10% returns, I'm okay with having more conservative holdings that capture say 5%. In this environment, I'd rather be more conservative than usual and buy & rebalance on the downturns.

I don't want to lose your business by seeing your assets leave our firm but do believe you'll be in a better position with some additional planning should a crisis occur. I suggest reducing or eliminating debt to the extent you're able without disrupting potentially needed savings. Consider putting 5-10%

of your investments toward precious metals such as silver. Consider cash holdings at a minimum of 15% in case it's needed or to take advantage of buying low. Consider diversifying into other hard asset classes. I believe it would be wise to own strong company stocks that produce goods people need, not just want. It wouldn't be the time to own the latest and greatest gadget company or luxury item stocks. And finally, economize your lifestyle.

If we enter an environment where your income decreases, you lose your job, your job doesn't provide what it once did, investment income goes down, etc., I believe you'll be in a better position by hedging your risks and diversifying.

Money can be made during turbulent times for those prepared. Never have I believed it to be so important to diversify into other sectors. Our nation reminds me of Proverbs 13:7 "There is one who pretends to be rich, but has nothing." I hate to say it, but it looks to me like our nation has gone or is going broke as we have continually operated in budget deficits and increase our debt.

I suggest you educate yourself on this topic and draw your own convictions. There's information out there with differing opinions. One easy read, if you'd like a better understanding, is a book called Prepare by Ethan Pope. And know I'm available if you'd like to discuss anything. I pray we all keep things in a right perspective. Matthew 6:19-21

IRA CONTRIBUTION REMINDER

If you are planning to contribute to your IRA for tax year 2014 and are eligible, please know contributions are due by 04/15/2015.

Today's IRA accounts offer more options than ever before, which allow the IRA to better reflect your individual needs. If you have not yet funded your 2014 contribution, I encourage you to consider taking advantage of doing so if it fits within your financial planning.

In case of processing delays we encourage you to take care of this well in advance of April 15th. Please contact me if you have questions regarding eligibility or if I can be of assistance in helping you select which IRA best meets your needs.