This Publication Brought To You Courtesy Of:

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CLIENT BULLETIN

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- ***Continuing Education***

I will be out of the office Monday through Thursday next week at a continuing education seminar on the Massachusetts Institute of Technology (MIT) campus. Topics include academic and practical approaches to the economy and financial markets as well as the effect of demographics and aging on the global economy. MIT professors, including Nobel Prize winner Dr. Robert Merton and Dr. Joseph Coughlin, founder of the MIT Age Lab, will be presenters. For an economic/finance geek it doesn't get any better.

- ***QE – What's the Deal?***

In a recent press conference, Federal Reserve Chairman Ben Bernanke provided a clearer understanding of how the Fed expects to phase out its current quantitative easing (QE) program that it began last fall. This latest version of quantitative easing involves the Fed purchasing $85 billion monthly in Treasuries and mortgage backed securities in an attempt to keep the halting economic recovery on track.

- ***Still Needed?***

It needs to be said that a timetable for ending QE is far easier to justify than the program itself. The current QE program combined with a near-zero federal funds rate amounts to the most extreme dose of monetary stimulus applied by the Federal Reserve in its 100 year history. With the economy in its fifth year of an admittedly sluggish recovery, unemployment down 2.4% from its peak and financial stress clearly much lower than a few years ago, it is hard to justify such an extreme approach. It is also questionable whether this monetary ease is really even helping growth.

- ***Dangerous Even?***

Equally important, the Fed's fast-expanding balance sheet carries dangers of its own. The bigger the Fed's balance sheet gets, the more expensive it will be to maintain if interest rates rise and the more disruptive it will be to dismantle.

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- ***Psychological Game***

Sadly, the Federal Reserve may now be the victim of their own rhetoric. Having spent years over-hyping the benefits of QE, they appear to have convinced some market participants that the economy can't get by without it. That's why the announcement of a timetable for ending QE by Bernanke (a process called tapering) was met with market declines despite the fact that the reason for the tapering is an improving economy which is good news.

- ***Debt Limit - Here We Go Again***

By sometime this fall, the federal government will once again reach its federal borrowing limit. In the summer of 2011, the government almost shut down because Washington failed to reach a compromise on the debt ceiling. That failure led to the country's first ever credit-rating downgrade. The jury-rigged "solution" at that time led to this year's across the board sequester cuts, continuing a series of short-term fixes and muddled maneuvers to delay decisions. The biggest assist Washington could give, of course, would be a grand budget compromise that controls spending and implements pro-growth tax reform that lowers overall tax rates while eliminating tax breaks and credits.

- ***How Bad is Europe?***

The unemployment rate in the Eurozone (the 17 countries that use the Euro as their common currency) is 12.2% as of April 2013. The highest unemployment rate in any US state as of April 2013 is 9.6% (Nevada). A major reason for this difference is labor practices in Europe vs. the United States. In the US it takes a company 8-12 months or less to make operational adjustments or cut costs by closing a plant in response to changing economic conditions. In Italy, however, responding to market forces can take a company 3 or more years and cost twice as much before it can make similar cost-cutting moves. Any company, EU or US based, is going to think twice about hiring new workers in the EU given these types of impediments to responding to changing economic and market conditions.

(Source: Bureau of Labor Statistics)

- ***Bigger Debt***

As of 3/31/13, outstanding student loans were $986 billion, surpassing outstanding credit card debt which totaled $846 billion. As of today (7/1/13) the interest rate on student loans doubles from 3.4% to 6.8% which is where the rate stood before Congressional action taken in 2008.

- ***Health care costs***

Health care costs in America are equal to 17.6% of the US economy, a larger percentage than any other country in the world. This proportion of our economy that goes to healthcare is 47% greater than the country in that holds second place in this ranking (Netherlands at 12%). The US percentage will most likely climb as the Affordable Care Act is fully implemented.

(Source: Organization for Economic Cooperation and Development)

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