StoneRidge Wealth Management

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The Quarterly Profit

AUSTERITY vs. STIMULUS

There has been a significant development in the "Austerity" vs. "Stimulus" debates. If you missed it, let me refresh the picture a little, because this may be one of the more important turning points since the recovery began in March of 2009. As the U.S. and global markets were spinning out of control in the fall of 2008, the U.S. government initiated a series of corporate bail-outs and stimulus programs designed to support our economy until it could recover on it's own. Most economists agree that despite various errors along the way, these strategies probably kept our economy from going over the proverbial cliff. Since then, a debate has raged as to whether or not these stimulus programs should be continued.

The "stimulus" advocates have been led by Paul Krugman, a Nobel award economist who has argued that austerity measures in a contracting economy will significantly impede growth, and that continued government stimulus programs are crucial for a long term recovery. In contrast, the "austerity" advocates want to terminate the stimulus programs and reduce the deficit. They maintain that if the deficit is brought under control, then confidence will return and our economy will strengthen and recover on its own. The austerity theory was anchored by a Harvard study showing that a 90% debt to GDP ratio (Gross Domestic Product: the sum of all goods and services produced in the U.S.) will seriously inhibit a nation's economic growth. As the 90% ratio is passed, a nation's bonds will then carry substantially greater risk, leading to increased interest payments, runaway inflation, and eventually economic decline. With the U.S debt to GDP ratio closing in on the 90% mark, there has been increasing alarm from the austerity camp. Krugman, however, has argued that the 90% ratio is far too low, and that there is a wide margin for continued stimulus. Please, no political statements here; I believe there is merit to both arguments.

The austerity vs. stimulus debates were not limited to the U.S. In the European Union, Germany has been a staunch advocate for austerity programs, and forced these measures upon the more economically vulnerable countries in the European Union. "Common sense" seemed to agree with the austerity position, but the deepening recession in Europe suggested that stimulus programs might be the better solution, as evidenced by our own recovering economy. Then along came the developments of last week. A new study exposed several fundamental mathematical errors in the Harvard paper, and the 90% Debt to GDP has become virtually irrelevant, validating Krugman's argument for a much greater Debt ratio before warning lights flash. So what does this mean for the future, and how will it affect our investments?

My personal opinion is that the wealthy nations will begin to replace their austerity programs with stimulus spending based upon the U.S. model. The global economies and markets may recover more quickly, thus creating a growing sense of stability and confidence. Hopefully, small business will begin to seek additional capital for expansion, lowering the unemployment rate, and increasing the overall tax revenues. This may be a reasonable assessment for the next three to five years, and if so, then we should look forward to continued growth in our portfolios. But the caveat is whether the politicians are capable of controlling the budgets once the global recovery has taken hold. (Continued…)

Austerity vs. Stimulus (continued)

Unless the U.S. and the other wealthy nations begin to confront the entitlement programs that now consume such staggering percentages of the respective national budgets, the next Debt to GDP ratio could be a brick wall. As frightening as those consequences may be, I am hopeful that our leaders will gravitate towards a culture of more reasoned debate and long term fiscal responsibility. At the risk of being overly optimistic, I am confident that we are at the beginning of a new growth cycle, and that the more positive aspects of globalization are still ahead of us. Let's continue to adjust our portfolios accordingly, taking advantage of the varied growth opportunities, stepping back into Emerging Markets when the evidence suggests it will be to our advantage, and continually looking over our shoulders for signs of economic danger. Please do not forget the StoneRidge mantra, "Protection First, Growth Second."

Van Mason, CFP™, CLU, MBA

Clients In The Community

Meet Ron and Marlene Horch

Ron and Marlene have been Samaritan's Purse volunteers for the last five years, travelling to Boone N.C. to assist the in the Operation Christmas Child division. They usually work from Thanksgiving to mid-December, six days a week, five hours a day. Ron and Marlene help inspect and coordinate the distribution of shoeboxes filled with toys, school supplies, and personal hygiene items for children all over the world. Each box includes a booklet describing the real meaning of Christmas. In 2012, thirteen countries donated more than 9 Million shoeboxes, bringing hope to children affected by war, natural disasters, and other circumstances beyond their control. More than 6.5 million boxes came from the seven processing centers in the U.S.

In 2012, Operation Christmas Child hit a milestone - the 100,000,000th (since 1993) shoebox was delivered to a 5 yr old girl in the Dominican Republic. To better understand the magnitude of this charitable endeavor:

- If you packed 100 million shoeboxes into 40ft. sea containers you would need 13,000 tractor-trailer loads!
- If you flew the world's largest airplane, the Antonov 225, to airlift 80,000 shoeboxes per week, it would take 24 years to deliver 100 million.

And what do Ron and Marlene say about their vacation with a purpose? "It is a very rewarding experience to be a small part of a big operation that brings joy and hope to children around the world during the Christmas season." Way to go, Ron and Marlene! And thank you!

8625 SW Cascade Avenue, Ste 240, Beaverton, Oregon 97008
503.352.0188 or 360.567.0784

Visit us @ www.stoneridgewm.com
Contact: amy.treat@lpl.com (or)
van.mason@ lpl.com