



# Paul R. Ried Financial Group, LLC

*Security for your future*

## **A MESSAGE FROM YOUR FINANCIAL TEAM**

**Fourth Quarter 2010**

*November 18, 2010*

Dear Clients,

The focus of the market over the last few months has largely been on only two issues: (1) the mid-term elections, and (2) the additional stimulus from the Federal Reserve. The market (as measured by the S&P 500) has rallied over 13% with little interruption since Ben Bernanke's speech on August 27th. During that speech, Bernanke hinted that there would likely be additional stimulus from the Federal Reserve. The rally was not limited to stocks. Bonds and commodities rallied as well. Despite the markets' initial positive reaction, many questions still remain regarding the positive or negative consequences of its implementation. Similar questions remain regarding the results of the elections, as many tough choices will need to be addressed.

### **Election Results and Choices**

There clearly appears to be a growing feeling among voters that they lack real choices. Nonetheless, the election is over and choices have indeed been made. Republicans took over control of the house and Democrats remained in control of the senate. For those elected (and those previously elected) many more choices will need to be made soon and each has its own specific economic implications.

Extending all, part, or none of the Bush tax is clearly one of the first choices to be made. Even if no agreement is reached by the end of the year, Congress will be making a collective choice to let all tax cuts expire. This, in itself, would have its own economic consequences. The market is forward-looking and appears to have factored in that at least some of the tax cuts will be extended to the "middle-class" taxpayer.

Regardless of the outcome regarding taxes, it is clear that the growing government debt problems cannot be solved simply by addressing taxes. Therefore, spending is also front and center. Today's government debt problems are the cumulative result of countless choices made over many years. These include the numerous wars resulting in an ever increasing defense budget, company bailouts and unsustainable entitlement programs, among others.

Without a doubt, new choices will need to be made in the near future. In fact, not addressing key issues would be a choice of its own. As Ben Bernanke recently put it at a speech in October, "One way or the other, fiscal adjustments sufficient to stabilize the federal budget will certainly occur at some point. The only real question is whether these adjustments will take place through a careful and deliberative process that weighs priorities and gives people plenty of time to adjust to changes in government programs or tax policies, or whether the needed fiscal adjustments will be a rapid and painful response to a looming or actual fiscal crises." All eyes will be on Congress and how they grapple with the economic problems at hand.

### **Federal Reserve Stimulus**

The Federal Reserve officially announced their widely expected new plan of "quantitative easing". In this case, quantitative easing is essentially the process of creating new money to buy US Treasuries with the intent of keeping longer-term interest rates lower than they would otherwise be in a "free market"

environment. Specifically, the Federal Reserve announced that they will be buying approximately \$600 billion of US Treasuries. This, in combination with their previously announced purchases, means that the Federal Reserve will be buying approximately \$110 Billion of Treasuries a month for the next eight months.

Part of the Federal Reserve's official reasoning is "to promote a strong pace of economic recovery". Indeed, the actions can help home buyers if it keeps mortgage rates low; it can also help corporations by keeping their borrowing costs down. However, it must be understood that this introduces the possibility of a variety of unintended consequences. This is apparent from the growing list of countries that have spoken out against these actions. Also, artificially lower borrowing costs for some mean that others earn less on their investments. These include retirees and savers who may rely heavily on the income those securities generate.

### **Looking Forward**

Opinions vary widely regarding the direction of the markets and the economy. We continue to believe the recovery of both will be a long process. Furthermore, tough policy choices will need to be made by our elected officials in the near future which can have major impacts. Similarly, we must be aware that even the decisions by unelected officials at central banks domestically and around the world can have significant implications.

There are many factors at play in the economy. Therefore, it is important to have an asset allocation plan with similar diversity recognizing that there are a wide variety of possible outcomes that can occur as a result of decisions that have yet to be made. In an uncertain world, we believe it is important to have a healthy respect for the unknown.

As always, we continue to monitor the economy, the markets, your asset allocation as well as our select money managers on an ongoing basis. We are here to serve you. Should you have any questions or concerns, please do not hesitate to contact us.

Sincerely, Your Financial Team

**Paul R. Ried, MBA, CFP®**  
Senior Financial Advisor\*  
Regional Director\*

**Timothy R. Kimmel, CFP®**  
Senior Financial Advisor\*  
Registered Representative\*

**Adam Jordan**  
Director, Investment Research and Management  
Registered Principal\*

**Lucy Beppu, CFP®**  
Senior Account Manager  
Registered Representative\*

Prepared By:  
Adam Jordan  
Director, Investment Research and Management  
Registered Principal\*

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