



SPECIAL UPDATE:

Shutdown and Budget Concerns

Weekly Update – October 7, 2013

The big news last week was that the federal government shut down on Tuesday, October 1 when Congress would not pass a 2014 budget bill. Since many federal agencies require their funding to be renewed each fiscal year, they were forced to shut down, furloughing 800,000 federal workers, and causing disruptions in services across the country.

So far, markets have largely shrugged off the shutdown as part of *business as usual* in D.C. However, as we head into the second week of the federal shutdown, uncertainty is rising. Currently, Congress appears to be at an impasse, and while the shutdown will have limited effects on our \$16 trillion-plus economy,¹ investors are starting to worry about the debt ceiling and a possible U.S. default.

It's important to keep the current situation in perspective. There have been 17 federal government shutdowns since 1976 and none have resulted in long-term damage to markets; in fact, on average, markets had gained 1.1% one month after the end of the shutdown, as investors took advantage of the selloff.² While the past doesn't predict the future, it's important to note that we're not in uncharted waters yet and the long-term effects of previous shutdowns have been negligible.

That being said, the effects of the shutdown are already being felt by firms that depend on government revenue. If the standoff continues, federal contractors could see their fourth-quarter revenues and productivity plummet.³ The shutdown has also affected America's reputation abroad. Ongoing negotiations have caused the President to postpone multiple foreign policy visits, undermining U.S. reliability and possibly causing some allies to consider whether the U.S. will be able to uphold commitments abroad.⁴

While we hope that the shutdown ends soon, there are some factors that may cause the debates to drag on until the debt ceiling deadline. Currently, serious negotiation is being held up by Democrats' and Republicans' unwillingness to compromise their core positions. In broad strokes, the Democrats want the passage of a *clean* budget bill, free from conditions, while Republicans – led largely by the Tea Party contingent – want significant spending cuts to healthcare programs.⁵

Congress is also facing a vote on whether to raise the country's \$16.7 trillion debt ceiling. Lawmakers must raise the ceiling by October 17 in order to avoid a government debt default. While both sides have vowed not to let the country default on U.S. Treasuries, entrenched positions over the budget will make resolving the issue challenging.⁶

Looking ahead, we can expect continued volatility as investors wait out Washington and worry about the coming debt ceiling deadline. Several important economic reports are scheduled to come out this week, including data on September retail sales, consumer sentiment and inflation. With many federal agencies out of commission, we don't know whether they will be released on schedule, adding to the murk surrounding the current state of economic affairs. On the positive side, it's looking increasingly unlikely that we're going to see any Federal Reserve tapering action this year. As always, we'll continue to monitor the situation and keep you informed. If you have any concerns about your portfolio or any questions about how these issues may affect your investments, please reach out to us. We are always happy to help.

ECONOMIC CALENDAR:

Tuesday: International Trade

Wednesday: EIA Petroleum Status Report, FOMC Minutes

Thursday: Jobless Claims, Import and Export Prices, Treasury Budget

Friday: Producer Price Index, Retail Sales, Consumer Sentiment, Business Inventories

Data as of 10/04/2013	1-Week	Since 1/1/2013	1-Year	5-Year	10-Year
Standard & Poor's 500	-0.07%	18.53%	15.68%	10.76%	6.42%
DOW	-1.22%	15.02%	11.03%	9.20%	5.75%
NASDAQ	0.69%	26.10%	20.90%	19.11%	10.25%
International	-1.04%	13.26%	18.80%	3.29%	4.65%
Data as of 10/04/2013	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.11%	0.04%	0.11%	1.41%	2.66%

Notes: All index returns exclude reinvested dividends, and the 5-year and 10-year returns are annualized. Sources: Yahoo! Finance and Treasury.gov. International performance is represented by the MSCI EAFE Index. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

HEADLINES:

ADP report shows dip in September jobs growth. While the ADP report is usually just a warmup for the official Labor Department data, the government shutdown meant ADP was the main event. Economists expected ADP to show 180,000 new jobs, but the report indicated that only 166,000 jobs were added in September; August jobs growth was also revised downward, suggesting that federal spending cuts may be affecting the job market.⁷

Obamacare applications hit a wall. The rollout of Healthcare.gov under the Affordable Care Act has faced numerous software and database problems. Some officials estimate that 99% of applications lack enough information to be processed, meaning some applicants may not have insurance in place by January 1.⁸

The U.S. is an energy superpower. New data from the Energy Information Administration (EIA) shows that the U.S. has surpassed Russia and Saudi Arabia and has become the world's largest producer of petroleum and natural gas. This could improve America's trade imbalance if excess production is exported overseas.⁹

Ireland will need EU support. A new IMF (International Money Fund) report warns that the precarious state of Irish banks is holding back the country's recovery. The report also states that Ireland will need a line of credit from the EU in order to continue its recovery when IMF bailouts end this year.¹⁰

QUOTE OF THE WEEK



“Anyone who stops learning is old, whether at 20 or 80. Anyone who keeps learning stays young. The greatest thing in life is to keep your mind young.”

- Henry Ford

RECIPE OF THE WEEK



Pear and Maple Yogurt Cups



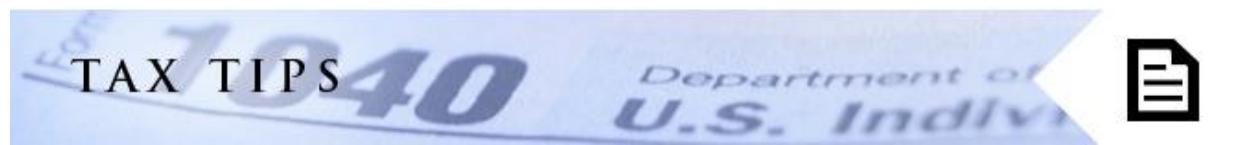
Dress up breakfast or dessert with this healthful treat. Recipe from RealSimple.com.

Ingredients:

1 cup plain low-fat Greek yogurt
1 pear, sliced
1/4 cup dried cranberries or cherries
1/4 cup chopped unsalted roasted almonds
4 teaspoons maple syrup

Directions:

Divide the yogurt between 2 glasses or bowls and top with the pear, cranberries, and almonds; drizzle with the maple syrup.



Your Pet Expenses Might be Tax Deductible

Some of your pet's expenses may be deductible if your pet generates business income. If you raise guide dogs for a charitable organization or you foster or rescue animals for an IRS-approved charity, their expenses may be deductible.

To find out more about deductible expenses, speak with your tax professional or review IRS Publication 17, Part 5, Standard Deduction and Itemized Deductions.



Don't Forget Your Shoes!

Proper golf shoes will keep you dry, and focused, improving your game and making you more comfortable.

- Wear waterproof shoes.
- Refresh mid-game with an extra pair of socks during wet or hot weather.
- Reduce clinging mud with special materials.
- Ensure your grip and swing with soft spikes.
- Remove mud from spikes and soles to prevent an awkward slip.



GREEN LIVING



Windows and Energy: No Panes, No Gains

Windows waste plenty of energy and money. Experts say as much as 25% of your home's heat can escape through leaky windows. Here are simple things you can do to make your existing windows save energy and keep your home a little cozier:

- Install weather stripping on drafty doors and windows.
- Use stretch-seal, heat-shrink plastic sheeting kits for windows as an inexpensive and easy way to seal warped or single-glazed windows.
- Use window quilts or shutters over your windows to keep the cold out in the winter and the heat out in the summer. An uninsulated drape can cut window heat loss by one-third. An insulated drape can reduce it by half.
- Remove, clean, and store window air conditioners. If this isn't possible, wrap the unit with a thick layer of fiberglass insulation and seal it with plastic sheeting and duct tape to keep out moisture.



Feed Your Soul With Volunteering

Research shows that volunteering has emotional and mental benefits to adults. Volunteering with a purpose can add meaning to your life and helps ward off heart attacks, depression and other debilitating diseases.

Share the Wealth of Knowledge!

Please share this market update with family, friends, or colleagues.

Securities, advisory services, and insurance products are offered through Investment Centers of America, Inc (ICA), member FINRA, SIPC, a Registered Investment Advisor, and affiliated insurance agencies. ICA and iWealth are separate companies.

Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Diversification does not guarantee profit nor is it guaranteed to protect assets

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate. The index is made up of measures of real estate prices in 20 cities and weighted to produce the index.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

Google Finance is the source for any reference to the performance of an index between two specific periods.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

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By clicking on these links, you will leave our server, as they are located on another server. We have not independently verified the information available through this link. The link is provided to you as a matter of interest. Please click on the links below to leave and proceed to the selected site.

¹ <http://www.bea.gov> (cached)

² <http://wealthmanagement.ml.com/publish/content/application/pdf/GWMOL/AR67T7R8.pdf>

³ http://seattletimes.com/html/businesstechnology/2021968150_boeingfurloughsxm.html

⁴ http://www.washingtonpost.com/politics/obama-cancels-the-rest-of-asia-trip-citing-difficulties-of-travel-during-shutdown/2013/10/04/cb1b8f22-2c9c-11e3-b139-029811dbb57f_story.html

⁵ <http://www.cnbc.com/id/101089328>

⁶ <http://www.cnbc.com/id/101089328>

⁷ <http://www.usatoday.com/story/money/business/2013/10/02/adp-september-employment-report/2905415/>

⁸ <http://www.cnbc.com/id/101087965>

⁹ <http://science.time.com/2013/10/04/the-u-s-is-an-energy-superpower/>

¹⁰ <http://www.theguardian.com/world/2013/oct/04/ireland-eu-support-bailout-imf>