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Congress Leading Us to Fiscal Cliff Dive?

By Louis E. Conrad II, CFA

- ▶ As disappointing as the current political bickering may be over the fiscal cliff, COMPASS expects that a minimal agreement will be reached within the next few weeks.
- ▶ Consequently, we have not made adjustments to client portfolios as we have believed that any negative market reaction would be transitory.
- ▶ The real fiscal decisions that need to be made will be deferred as long as possible.

I have used these pages in the past to review the fiscal cliff ("The Fiscal Cliff" in June 2012) and the precarious state of our nation's debt level ("In Debt We Trust?" in November 2012). Not surprisingly, we find Congress and the Administration have taken us to the brink of yet another financial crisis created by their own dysfunction—their inability to make the necessary decisions through compromise that would place our country on a path toward fiscal responsibility. As I stated last month, "While politicians may bicker about whether tax increases or spending cuts are needed, the reality is that both will be required. In the future you will pay more for reduced services and programs from the federal government."

The impact of traveling over this cliff, which is a combination of broad-based tax increases and spending cuts scheduled to take effect beginning on January 1st, is widely expected to lead to a recession

and significant job losses. All of this from an artificial construct created by Congress.

My expectation is that Congress will reach a minimal agreement by the end of the year or early in January that will attempt to reduce the negative effects of the fiscal cliff (e.g., maintain current income tax rates for everyone, except those in the top two tax brackets), but that the real decisions of tax rates and tax reform, as well as entitlement cuts will be deferred as long as our politicians lack the leadership to make the decisions that are required. Unfortunately, the longer they delay, the greater the pain we will all ultimately suffer.



Louis E. Conrad II, CFA
President

lconrad@compassinvest.com
(978) 828-5681
www.compassinvest.com

Advisor Corner

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