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Crisis Averted...for Now

By Louis E. Conrad II, CFA

In our Special Fall Edition of "The COMPASS Chronicle" released on September 26, we highlighted COMPASS' expectation that the "Congressional games of brinkmanship" leading up to the debt ceiling deadline could lead to additional market volatility, but that we did not expect it to result in a stock market correction as market participants had grown desensitized to Capitol Hill's shenanigans.

On a daily closing basis, the S&P 500 declined only 4% from its peak close on September 18 during the budget and debt ceiling standoff. In fact, the S&P 500 reached its recent low mark one week before the October 17 debt ceiling deadline before rallying 5% to its current level, placing its return year-to-date at 22%.

Though we believe a 5 – 10% correction would be a healthy response to such an extended rally, the market has cheered (1) the fact that Congress did not allow

the U.S. Treasury to default on our national obligations and (2) the standoff negatively impacted fourth quarter GDP by an estimated 0.3% (according to a survey of economists by Bloomberg News), which is likely to delay the Federal Reserve's plan to "taper" its \$85 monthly purchase of Treasuries and mortgage-backed securities until March 2014.

This delay in the "taper" provides liquidity to the market for an extended period and supports a "risk on" attitude among investors. However, earnings growth has been decelerating for several quarters and now stands in the low single digits. With profit margins near peak levels and revenue growth uninspiring due to anemic economic growth, COMPASS continues to expect that stock market advances will be in the mid-single digits over the next 1 – 2 years, down from 16 – 20% over the past couple of years.

More about COMPASS Wealth Management, LLC



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COMPASS Wealth Management, LLC is a client-focused wealth management firm dedicated to providing superior advice to individuals, families, and corporate retirement plans.

Our wealth management services include investment management, retirement and gift planning, education funding, and other advisory services.

We take pride in offering you expert financial advice along with personalized service. Assisting you in reaching your financial goals is our business and we take that responsibility very seriously.

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