Autumn 2013

You'll likely be either surprised or relieved to learn this *folio* is not about funding the government or raising the debt ceiling. In fact, by the time you read this, the government may be funded and the debt ceiling may be raised. Or plans may be in place to do one or both. Or none of the above. But the government will eventually open back up and it's our very firm belief the US will not skip payments or default on obligations. Not even the mind-numbingly misguided people in congress will take that risk.

Believe it or not, there are plenty of other things to discuss. And four of them will quickly take center stage once the curtain comes down on the comitragedy in Washington.

FIRST, you'll notice that, since the US Fed surprisingly kept the current QE3 in place, short-term interest rates will remain low for at least another year. This puts a lid on the interest banks pay and helps them fund more loans and continue to strengthen their balance sheets and reserves. Slow growth around the world, with inflation in check, should help keep stock prices moving upward. Which means your investment outlook hasn't changed from what's it been the last few years. Slow and steady is a good place to be.

AND since the 2007 housing peak and subsequent financial crisis, good ol' supply and demand have been working together to correct the imbalance created by over-building single-family-owner-occupied homes and under-building rental properties. The biggest correction has come via an increase in properties built for the purpose of renting and the purchasing of those houses (cash and institutional buyers). At the same time, banks have cleaned up their mortgage loan portfolios and increased their financial resources to weather future setbacks.

AND while there's no quick or easy solution to the European crisis (is there ever a quick or easy solution to anything we *rightfully* call "a crisis"?), progress continues to be made. Germany's a prime example. The country re-elected Angela Merkel, which provides stability in the strongest European economy and the country most responsible for funding the European bailouts. And Italian Prime Minister Enrico Letta's coalition government survived a Senate confidence vote, ensuring some political stability and strengthening the course to recovery. Unemployment remains the most pressing obstacle to stabilizing the European economies. While overall levels seem to have stabilized, unemployment among the young workforce remains extremely high and will be the most important variable to watch.

AND China's manufacturing has begun to rebound, moving from contraction to expansion over the last few months. A rebound in Chinese manufacturing helps commodity-based economies like Australia and Canada. Additionally, internal consumer demand has picked-up, giving the no-longer Sleeping Giant a nice one-two punch to recovery. This is evident in their market moving up over 15% since the end of June. While the West and much of the world were fixated on the political ping pong match in D.C., the Chinese juggernaut got back on its feet.

Is there a worst-case scenario to what's going on in Washington? Of course. There's also one for crossing the street or boarding, say, an Italian cruise ship. And, trust us, we could fill enough pages with doomsday scenarios to require an extra-large manila envelope. But the chances of any of those happening are as slim as a Ritz Carlton sandwich, to use British humorist Stephen Leacock's phrase. And, frankly, fixating on it means taking your eye off the ball. What we'll soon see is the market return to what matters, interest and inflation rates, corporate profitability, and employment. And as has been the case for the last few years: slow growth, low inflation, improved domestic and international policies, and improving employment prospects. In short, what was happening before the latest circus came to town.

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