Weekly Market Summary, Aug. 8, 2011

Standard & Poor’s downgraded the U.S. debt rating from AAA to AA+ on Friday. The news is likely to impact markets in the coming days.

In our opinion, the largest holders of longer-term Treasuries (the Federal Reserve, China, and Japan), along with some of the largest funds in the world, still consider U.S. Treasuries to be the safest security globally. Read more now.

The Budget Control Act and Debt Ceiling

After months of political posturing and debate, it looks as if the August 2011 debt ceiling issue has finally been resolved.

The Budget Control Act was passed by the U.S. House of Representatives 269 to 161, with Democrats split evenly and Republicans voting174 infavor and 66 against. In the Senate, the bill also passed, with 74 senators in favor and 26 against. Both the president and Republican leadership in the House claimed victory, while rank and file members of Congress on both sides of the aisle maligned the bill as a betrayal of party policies.

Leading up to the deal, Republican goals broadly included no tax increases, significant spending cuts to nondefense expenditures, including entitlement programs, and a balanced budget amendment.

Democrats hoped to either raise taxes or close loopholes, cut defense spending, and protect entitlements such as social security and Medicare. Leaders of both parties claimed to want to avoid government shutdown or default, as well as to avoid a downgrade ofU.S.debt from AAA status.

Over the months leading up to the Treasury's debt ceiling deadline, Republican and Democrat leadership nearly came to agreement on a number of iterations of a "grand bargain," which would have potentially saved $4 trillion over the next 10 years and included both tax increases and cuts to entitlement programs. This would likely have been the most effective long-term solution to reducing our national debt. But with Tea Partiers putting pressure on the Republican right and Progressives lobbying on the Democrat left, a second-best deal was agreed upon instead.

In this deal, both Democrats and Republicans had to make concessions, but both achieved some key goals. The passage of the debt ceiling may have helped avoid an immediate crisis in financial markets, but the long-term compromise that was reached lacked the level of spending cuts and/or tax increases that many had hoped for.

Details of the bill

In total, the bill is expected to raise the debt ceiling between $2.1 and $2.4 trillion, which should be enough to last past the 2012 elections and into 2013. Deficit reduction is expected to total at least $2.1 trillion over the next 10 years ending in 2021.[1] Immediately following the passage of the bill, the Treasury was granted $400 billion of new borrowing authority to raise the debt ceiling. The additional $1.7 to $2 trillion in debt ceiling increases will come in two stages, both of which will originate from the desk of the president and be subject to a two-thirds disapproval vote by both houses of Congress

As for the spending cuts, these will come almost entirely from discretionary spending, meaning that entitlement programs such as social security, Medicare, and Medicaid will be left almost untouched. Initially, $917 billion in savings from spending caps have been approved. Of these initial cuts, $350 billion will come from defense[2] and the balance will come from a variety of discretionary programs, including subsidized student loans for graduate students and loan repayment incentive programs.[3]

A Congressional Joint Select Committee on Deficit Reduction will also be formed, whose goal it will be to identify an additional $1.5 trillion in savings over the next five years. This Committee will be handcuffed in that it cannot cap spending on the wars inAfghanistanandIraqand in that Medicaid and social security will be exempt from consideration. Although tax increases may technically be allowed under the deal, Republicans are unlikely to agree to any tax hikes. Finally, Medicare may be subject to cuts of no more than 2 percent. If the Committee fails to come to an agreement, automatic reductions in spending will reduce deficits by $1.2 trillion over 10 years.

Spending Cuts Coming Only from Discretionary Spending

Source: Congressional Budget Offic

Implications of the bill

As investors, many of us are keenly interested in the economic impact of the passage of this bill. Given the initially poor market reaction after the bill's passage, one might conclude that the overall effect of passage was negative. But some negative market developments should be attributed to weak economic reports, including ISM Manufacturing and GDP, which were published almost concurrently with the bill's approval.

On the whole, from the perspective of the financial markets, passage of the Budget Control Act is at the very least a lesser among evils. Had a bill not been passed—forcing government officials to prioritize spending and avoid default—markets could well have reacted in a much more negative way.

Although this bill must be described as a relief from short-term crisis, its medium- and long-term implications may be less positive. With GDP growth averaging less than 1 percent annualized over the first half of the year, even the modest reductions in spending set to go into effect in 2012 could cause some drag on economic growth.

In the long run, the cuts made in the Budget Control Act may not be sufficient to turn federal budgetary habits in the right direction. In a scenario where deficit savings amount to $2.4 trillion over the next 10 years, this averages out to a deficit reduction of just $240 billion per year.

Current Congressional Budget Office projections are for average deficits of $947 billion per year over same time frame, based on President Obama's April 2011 budget. This means that the savings will likely not exceed continued deficit spending and that, eventually, we may face another round of budget-related debate.

Closing thoughts

It is difficult to call the Budget Control Act a clear victory for either party, but it does represent a step in the right direction. At present, the immediate concerns about debt have been alleviated. In addition, regardless of political leanings, everyone can agree that it is encouraging to seeWashingtonaddressing these issues now while the public debt is manageable.

Investors will do well to recall that theU.S.economy remains the largest—and is among the most stable—in the world. Our economy and stock market have weathered volatility in the past. Although it may not boost media ratings, there is a case for optimism. The government is under pressure to provide viable solutions for the long-term, rather than a short-term fix. So, too, should investors consider their long-term goals and strategy when evaluating their personal financial situation. We, too, will be monitoring the activity inWashingtonand the markets with an eye toward the future.

Authored by Simon Heslop, CFA®, director of asset management, and Sean Fullerton, investment research associate, at Commonwealth Financial Network. © ***2011 Commonwealth Financial Network®***

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[1] Source: Congressional Budget Office

[2] Source: *Wall Street Journal*

[3] Source: Congressional Budget Office

Changing Healthcare Landscape Impacts Businesses: Free Workshops to Help Gauge Your

Readiness

Allen Insurance and Financial is holding three free workshops for businesses and non-profits to help explain the impact of LD 1333, the new state law changing the health insurance landscape in Maine.

The workshops, free open to the public, will be held Tuesday, Aug. 23, at the Maine Lighthouse Museum in Rockland; Wednesday, Aug. 24, at the Lord Camden Inn in Camden and Thursday, Aug. 25, at the Ramada Inn in Ellsworth.

Each workshop will run from 8:30 to 10 a.m. Coffee and pastries will be served.

“There’s no more important time to learn about the state of the health insurance market and how LD 1333 impacts small- and medium-sized businesses and non-profits in Maine,” said Dan Wyman, employee benefits specialist at Allen Insurance and Financial, adding that the workshops will address changes required by LD 1333 and how LD 1333 will work alongside federal healthcare reform.

Allen Insurance and Financial, with offices in Camden, Rockland and Southwest Harbor, serves more than 600 companies and non-profits, large and small, from Kittery to Calais, with their employee benefits needs. For more information about these workshops, call Sherree Craig at 800-439-4311.

In addition to a question-and-answer session, the workshops will address:

- Key Provisions of LD 1333 and their impact on small- and medium-sized business in Maine, including pricing structures and mechanisms, Rule 850, creation of a high-risk pool, and the possible opportunity to purchase health

insurance across state lines.
- Important deadlines.
- What the future may hold.
- Resources to learn more and to stay up-to-date on the issue. A Maine native, Dan graduated from Williams College and the University of Maine School of Law, where he was an editor of the Maine Law Review. He practiced law with a Portland firm, specializing in insurance litigation, prior to joining Allen Insurance and Financial. He has represented employers and insurers before the Maine Supreme Court and the U.S. First Circuit Court of Appeals. At Allen Insurance and Financial, he works with businesses and non-profits throughout Maine on group benefits insurance planning.

Protecting the Stuff in Your College Dorm Room

Do college students think about insurance for their stuff? Probably not. Fortunately, in many cases, parents' homeowners policy will provide enough coverage in case something is damaged or stolen. But you should always double-check.

Personal property in a dorm room or apartment is usually covered for a limit of 10 percent of the parents' contents limit on their homeowners policy, subject to the same deductible. A good reason to check with your insurance agent is that some newer policies have some time restrictions on this coverage.

It's also important to remember that there are limitations on coverage for certain items, such as computers.

Other college-related reasons to check with your insurance agent:

- Bringing a vehicle to college.
- International travel (studies or vacation).

Weekly Market Update, July 20, 2011

Continued concerns over Europe’s sovereign debt hit equity markets hard last week, leading the S&P 500 to lose a little more than 2 percent in a volatile week.

Italy’s borrowing costs have become dangerously close to unsustainable levels, in what looks to be a contagion effect in the region. This is precisely what the European Union and the International Monetary Fund were hoping to avoid by helping Greece, Portugal, and Ireland.

Read more now.

Weekly Market Summary, July 5, 2011

Treasuries sold off the most they have in months, and yields reached levels we haven't seen since April. The longer part of the curve moved the most as the second round of quantitative easing (QE2) came to its official end.

Municipals had the best-performing quarter since 1992, returning 4.45 percent in the last three months, as institutional investors found attractive yields.

[Read more now in our Weekly Market Summary.]

Weekly Market Summary, June 27, 2011

Equity markets were mixed during a volatile week; riskier indices like the MSCI Emerging Markets Index increased, while developed markets lost ground.

Technical factors have continued to influence equity markets. The S&P 500 has bounced off its 200-day moving average twice recently. If it were to close below that level, 1,250 and 1,220–1,225 are the next support levels that could be strong tests.

[Read more in our Weekly Market Summary.]

Weekly Market Update – 6/22/2011

Economic data was mixed last week. Reports showed some slowing in retail sales and manufacturing, although the numbers were better than forecasters had predicted. Read more now in our Weekly Market Update.

Weekly Market Update – 6/15/2011

The Federal Reserve's Beige Book was released last Wednesday. The report focuses on economic activity in all 12 major districts and is the basis for topics to be covered during the next FOMC meeting on June 22.

Comments by Fed Chairman Bernanke did little to inspire equity investors, and equity markets fell for the sixth week in a row. Read more now in our Weekly Market Update. (PDF, new window)

Allen Insurance and Financial is a Safeco President's Award Winner

Allen Insurance and Financial has been honored with the President's Award for its superior performance by Peerless Insurance and Safeco Insurance, members of the Liberty Mutual Group.

Allen Insurance and Financial was recognized for achieving exceptional results in 2010, including account growth and loss ration targets, as well as for its exemplary service to Peerless and Safeco customers.

Allen Insurance and Financial is one among an elite group of agencies nationwide to be so recognized and has been named a President's Award winner 18 times.

Officials from both Safeco and Peerless, representing the commercial and personal segments of the Liberty Mutual Group, visited the Allen Insurance and Financial offices recently to thank the company's 70+ employees for their hard work, dedication and professionalism.

In addition to the company award, Allen Insurance and Financial's Joella Rossignol, a personal insurance specialist, has been recognized by Safeco for her individual efforts on behalf of Safeco Insurance customers. As a member of Safeco's H.K. Dent Society, Rossignol is among the top 10 percent of all Safeco agency.