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From:	Grow | Marinis Group
Sent:	Friday, 11 October 2013 11:57 AM
To:	Grow | Marinis Group
Subject:	Scare Mongering Over the US Shutdown
Attachments:	2013 10 11 - Chris Caton US Update.pdf

Dear Friends

If you read the financial press you could be fooled into thinking the financial world was going to end because of the current stalemate in American politics – the so called US Government "Shutdown".

What our over-excited commentators are forgetting is that between 1976 and 1996 there were 17 such "shutdowns".

Having said that, an event like that will on average shave 0.1% off US GDP.

Therefore, what does this mean for Australia and your retirement savings?

In the medium to long term basically nothing. In the short term, we may see the Australian dollar strengthen (it has crept back to near 95 cents over the last few weeks) and the ASX may have a correction after its recent robust run.

My long term view remains "stay in your seats" in other words, don't panic when these sorts of challenges are thrown at us.

For those who are already drawing on their retirement savings, I hope you get some comfort from knowing we have put in place a "Marinis Buffer" in order to protect your portfolio against a sudden hiccup – usually, this is agreed as two years' worth of drawdowns held in a cash account.

As always, please feel free to contact me on (08) 8130 5130 if you have any questions.

(I have attached a copy of a briefing note from BT's Chief Economist Chris Caton which goes into this in more detail, should you be interested.)

Yours sincerely

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Update on the US Shutdown

Update on the US Shutdown by BT Chief Economist Chris Caton

The US government shutdown has entered its second week. This is not as dire as it sounds. Firstly, only the 36% of Federal spending classified as "discretionary" is affected; Social Security payments, for example, continue to be made. Secondly, while there hasn't been a shutdown since the halcyon days of Bill Clinton in 1996, before that they were quite a common occurrence.

The table below shows that there were 17 such shutdowns between 1976 and 1996. The median length was 3 days, with the longest being the 1995-96 event (21 days). Those that began on 30 September, as this one did, had a median length of 11 days. In each case, life as we know it eventually resumed.

History and duration of US Government shutdowns:

Dates	Number of Days
September 30 - October 11, 1976	10
September 30 - October 13, 1977	12
October 31 - November 9, 1977	8
November 30 - December 9, 1977	8
September 30 - October 18, 1978	18
September 30 - October 12, 1979	11
November 20 - November 23, 1981	2
September 30 - October 2, 1982	1
December 17 - December 21, 1982	3
November 10 - November 14, 1983	3
September 30 - October 3, 1984	2
October 3 - October 5, 1984	1
October 16 - October 18, 1986	1
December 18 - December 20, 1987	1
October 5 - October 9, 1990	3
November 13 - November 19, 1995	5
December 5, 1995 - January 6, 1996	21

Source: RenMac

The current shutdown came about because US Congress did not pass a "continuing resolution" to enable the Government to continue to spend when the new fiscal year began on 1 October, 2013. The main reason why Congress failed to do this is because the lunatic fringe of the Republican

Party (frequently referred to as the Tea Party) is seeking to stop the Affordable Care Act (aka Obamacare), which makes health insurance compulsory for most Americans, while ensuring that everyone can get coverage.

The economic effects of the shutdown are not huge; it is estimated that every week that it lasts will shave about 0.1 percentage point of Q4 GDP growth.

It now appears that the length of this shutdown will exceed the 11 day historical median. The reason is that the issue is about to be enjoined with another far more serious one; the raising of the US debt ceiling. This is something that needs to be done periodically so long as the Federal Budget is in deficit. Some will recall the share market chaos, and the downgrading of US Government debt by at least one ratings agency when the ceiling had to be raised in August 2011.

Raising the debt ceiling should be a simple accounting exercise; instead it tends to become a game of fiscal chicken between the Republicans and the Democrats. Given the intransigence that caused the shutdown, many fear that the debt ceiling negotiations will stall and the Government will literally run out of money, sometime soon after 17 October. A subsequent debt default by the US government would have untold negative consequences in global financial markets. The US Treasury has suggested that it would lead to a crisis as bad as 2008, and that the effects would be felt for a generation.

The fact that the outcome of a default would be so pernicious is, of course, the biggest single reason why things are unlikely to get that far. But someone has to blink.

For as long as this remains an issue, markets will be volatile. But resolution should lead to a strong pickup as uncertainty is removed.

For more information

For enquiries please call Wrap Adviser Relations on 1300 360 899 or email enquiry@adviserwrap.com.au.