



FINANCIAL SERVICES ADVISORY

I N C O R P O R A T E D

What to Do Now That 'Sep-Taper' is Upon Us?

August Market Review From Your Portfolio Management Team—September 13, 2013

August turned into a relatively calm month, with stocks and bonds both down slightly for the month. With many traders on vacation in August, as well as most politicians, it is often a relatively quiet time of the year in the markets. Now that school has started back up and most people are back to work, attention in the markets has shifted back to the Federal Reserve, and whether they plan to begin the so-called 'taper' action.

For those of you unfamiliar with the term, the Federal Reserve Board, under the leadership of Ben Bernanke, has hinted that they want to start reducing the \$85 billion purchases they have been making in the bond market on a monthly basis since September 2012. As you might imagine, this has been causing some angst from market participants because many believe that it is these consistent Fed purchases which have kept interest rates low, thus enabling the housing market to rebound and keeping interest payments down for the government and any private borrowers. When the Fed winds down that activity, so the argument goes, interest rates will rise, thus choking off the housing recovery, as well as, economic growth, in general. The economy is too weak to grow without this artificial stimulation.

Of course, some observers believe that we need to wean the economy off of this artificial stimulation and let the economy recover on its own. The Fed's intervention is causing all sorts of dislocations and is not allowing capital to get to the optimal locations.

At this time, many observers believe that the Fed is ready to announce a reduction (or tapering) of its bond purchases at its meeting in September (next week). Will the bond market sell off (or rally) on the news? Will stocks continue to climb higher (or sell off) on the news? There is no shortage of opinions.

At FSA, we are keeping most of our attention on the underlying trends in the stock and bond markets. Stocks have stalled out over the past few months, but are currently at the top end of their range. Bonds have also stalled out recently, but are generally at the low end of their range. Could a Fed decision signal a change in direction for either or both of these assets? We should get more clarity next week, but we expect a pick-up in trading activity in the weeks ahead as investors react to actions from the Federal Reserve.

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