



October 11, 2013

TAPER DELAYED

Dear Investor:

For most of this year the discussion in the financial world has been dominated by one word – Taper. This rose to a fever pitch after Chairman Bernanke’s now famous news conference in June. Tapering, of course, refers to a gradual winding down of the Fed’s monthly purchases of government securities. After a big market reaction in June, things settled down and the SP500 moved up again. The market was prepared for tapering to start in September, but the Fed shocked everyone again by deciding to wait a little longer. Several Fed governors said afterward it was a very close call but they wanted a little more “insurance”.

Now, things have evolved quickly, and we are stuck in a government shutdown and a battle over the debt ceiling. The taper has been pushed to the back burner, and no one thinks there’s any chance of it starting in October, as the uncertainty is too high. This will keep the Fed printing money at the annual rate of over \$1 trillion for the rest of the year and perhaps longer. This is bad news for the long-term health of our economic system. There is no free lunch, but we are living like there is.

Our GDP is still locked in the “new normal” range of approximately 2% growth. While this is only half the growth rate of recent recoveries from recession, at least we are moving steadily forward. Our current GDP is in the range of \$16.6 Trillion dollars. I’m cautiously optimistic that growth can continue. A recent article on Bloomberg.com explained that Americans have made substantial progress in getting their financial houses in order. Ratios of debt to income have improved significantly, and people are adding some money to their savings. Lenders have also made credit standards for residential mortgages and auto loans a little easier. This is helpful as long as the standards remain prudent and don’t lead back down the road of lending money to anyone with a pulse. Another good sign comes from home builders. The National Association of Home Builders/Wells Fargo housing market index stood at 58 in September. This index measures the outlook of home builders. They have grown much more optimistic about their sales trends, as the reading was only 40 a year ago.

Lyndon Office Park • 7000 East Genesee St. Bldg. D • Fayetteville, NY 13066-1139
P: 315-701-5750 • F: 315-701-5751 • dkeim@keimassetmanagement.com
www.keimassetmanagement.com

The expansion in the economy this year and the changes in the tax laws have brought a lot of new revenue into the Treasury. We don't know what the final deficit is for fiscal 2013 because of the government shutdown. It was supposed to be released earlier this week. We do know from the first eleven months of the year that it's a lot lower and the best showing in the last five years. Getting the Federal budget under control is critical to our well being as a nation. We are borrowing and printing way too much money. Our economic strength needs to come from companies being competitive and growing their earnings. This will create a virtuous circle of more hiring, higher consumer confidence, and a growing GDP. Hopefully, the taper will come to the forefront again very soon. As I stated in previous letters, as we attempt to make this transition from excessive stimulus, it won't be easy. There will be an increase in volatility and turbulence in the markets. We will have to stay committed to our long-term goals and as we do, we will be successful.

I hope you and your family are well since the last time we talked. Please feel free to contact me anytime to discuss your portfolio.

Best Regards,

David E . Keim