Government Shutdown, Debt Ceiling, and Your Portfolio

The great American author Mark Twain once said, "History does not repeat itself, but it does rhyme."[1]

For individual investors, the fear of an extended decline in stock prices, and the specter of a federal government default, has caused an understandable anxiety. But we've been here before.

In the face of uncertainty, it's helpful to take a look back at some historical context and its relevance to a well-designed, long-term portfolio.

Déjà vu all over again

If investors are experiencing a sense of déjà vu, it's because we've seen this movie before. There have been 53 votes between 1978 and 2013 to change the debt ceiling. Of that total, 27 were resolved as part of a negotiated omnibus package of legislative bills or reforms. The other 26 were "clean," meaning no strings-attached statutes.[2]

In all 53 cases, the debt ceiling was raised without default.

How has the stock market fared in the face of recent similar impasses?

During the 1995-96 shut down, which lasted 21 days, the Standard & Poor's 500 fell 3% as negotiations dragged on; once a resolution passed, the S&P 500 rose 6% by January 31, 1996.[3,4] *(Always remember, past performance does not guarantee future results.)*

Moving Markets

During the debt ceiling battle in the summer 2011 that resulted in the Moody's downgrade of the U.S. credit rating, the S&P 500 dropped 17%. Six months later, prices had recovered.[5] Most recently, the S&P 500 slipped 2% while the "fiscal cliff" imbroglio was unfolding during December 2012. Following its resolution, the S&P 500 gained 2.5% in the first trading day of 2013.[6]

Which brings us to an important point: many portfolios are specifically designed to pursue long-term goals through a diversified approach that predominantly includes long-term investments, such as stocks.[7] Also, most portfolios are created with the knowledge that long-term growth does not occur in a straight line. Short-term volatility is the price paid to benefit from potential capital growth.

Buffett Speak

As the example of December 2012 illustrates, stock market rebounds can occur very quickly — often too quickly for those investors spooked out of the market to return swiftly enough to recover the losses they experienced by selling in the face of these fleeting events.

If anything, the recent market volatility may represent an opportunity if you believe the maxim of one of America's best living investors, Warren Buffett, who advised, "Be fearful when others are greedy and greedy when others are fearful."[8] •

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1) *Goodreads*, 2013

2) *The Wall Street Journal*, October 3, 2013

3) *USA Today*, September 29, 2013

4) Source: *Yahoo Finance*. The S&P 500 Composite index (total return) fell 3.5% between December 13, 1995, and January 5, 1996. The S&P 500 rose 6% between January 5, 1996, and January 31, 1996. The S&P 500 Composite index is an unmanaged index that is generally considered representative of the U.S. stock market. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index. Keep in mind that the return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

5) Source: *Yahoo Finance*. The S&P 500 Composite index fell 17% between July 7, 2011, and August 19, 2011. The S&P 500 closed at 1,358.04 on February 16, 2012, above its prior close of 1,353.22 on July 7, 2013.

6) Source: *Yahoo Finance*. The S&P 500 Composite index fell 2% between December 17, 2012, and December 28, 2012. The S&P 500 rose 2.5% on January 2, 2013.

7) Diversification is an approach to help manage investment risk. It does not eliminate the risk of loss if security prices decline.

8) *Goodreads*, 2013

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