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WILL THE FEDERAL DEFICIT HURT YOUR INVESTMENTS?

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Investors frequently look at federal deficits as bad news for stocks. Last year's deficit exceeded \$400 billion and has concerned many. They believe that to pay for the mounting debt, the government must increase interest rates and raise taxes. Corporate borrowers would have to bump their interest rates to compete with Treasury bonds, then prices go up and profits decline. Fortunately, this is not how it always goes.

There has been a budget deficit in 16 of the past 20 years. Still, during that time, the 10-year Treasury bond's interest rate fell from 11 percent to less than 4 percent. And the stock market's return does not seem to relate to deficits, either.

In 1975, the deficit hit a high of \$75 billion. The SP500 rose 32 percent. Then in 1985, the government spent \$216 billion more than it took in. And the market went up 26 percent. The last record-setting deficit was in 1992 with \$327 billion. Even so, stocks went up 4 percent. So does this mean we can expect stocks to surge in light of another record deficit?

Much of the present budget situation came about because of the tax cut, escalating military operations and unemployment benefit extensions. And each of these programs could actually help the economy. The possible proof for this assumption may have occurred in September 2003, when the Economic Cycle Research Institute's index of leading economic indicators reached a 20-year high.

As a financial adviser, I don't like to see budget deficits, either within my clients' finances or my government's. Nevertheless, recent history indicates the state of the federal budget may have little impact on how well your investments perform.

Therefore, you should base your investment decisions on the fundamentals that have been successful in the past and not on how our politicians spend our money.

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