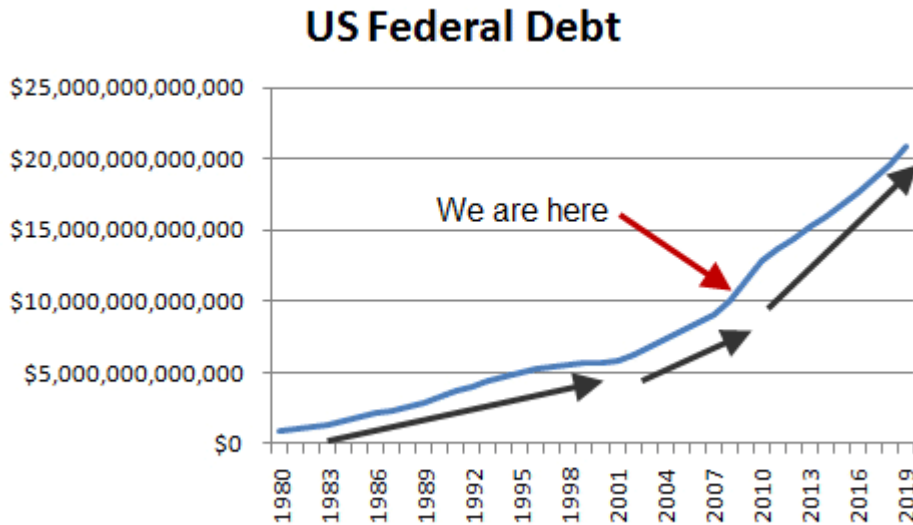


July 23, 2009 – The Federal Debt

Up, up, and away! The slope of U.S. Federal Debt has been increasing over the years and now we have to wonder if it has reached the point of no return. Add to this baby boomers going on Social Security and Medicare and things can seem a little scary. The arrows on the chart indicate how the debt has accelerated over the years and is projected to accelerate again in the next ten years.



The U.S. debt has just topped \$10,000,000,000,000. Seeing the actual number is more powerful than merely writing \$10 trillion as there is a whole lot of zeros in a trillion. These numbers are so large, can we actually fathom how big they are and what they mean? Projections show the debt will rise to \$20 trillion in ten years! I remember the discussion of the debt being out of control back when it was \$3-4 trillion. It seems as though we are on a path to a very bad ending.

What if the world stops buying our debt? Reports state half of our Federal budget is financed. Meaning we borrow half the money from China, Japan and others just to pay our yearly obligations.

In a report out Monday, Neil Barofsky, special inspector general for the Treasury's Troubled Asset Relief Program (TARP), stated U.S. taxpayers may be on the hook for as much as \$23.7 Trillion to bolster the economy and bail out the financial companies. Barofsky made the estimate in testimony prepared for a congressional hearing on July 21, 2009. "TARP has evolved into a program of unprecedented scope, scale and complexity," Barofsky said in testimony prepared for the hearing. Barofsky's estimates include:

- \$7.4 Trillion in TARP and other aid from the Treasury – about \$600 billion allocated to date
- \$7.2 Trillion for Fannie Mae, Freddie Mac, credit unions, Veterans Affairs & other programs
- \$2.3 Trillion in programs offered by FDIC

This does not include other obligations like Social Security and Medicare. It is my assessment, that this debt is going to be a major headwind for stocks in the coming years. Taxes will eventually have to go up to pay the expanding debt so consumers, who make up 70% of GDP, will have less to spend. Thus companies could struggle for sales and stock prices could face major headwinds in the years to come.

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