



An American Family Meets Standard & Poor's

Tom McGuigan, CFP

September 2011



Earlier this year, I wrote of an American family that earns \$50,000 annually but spends \$80,000. They have \$208,000 of credit card debt, which is estimated to grow to \$400,000 because of promises they've made. When asked how they'd pay for it all, the reply was they'll leave the debt to their children. After all the promises made to the kids, they won't need an inheritance.

Readers may remember that this family is you and me collectively and these figures represent our federal budget, just scaled down, so you and I can get our arms wrapped around them. It's just too hard for us to envision \$14 trillion of debt.

The article ended with this thought: "We may debate how to best fix this issue, but we must first all acknowledge the extent of the problem. It is real. It is severe. And, it threatens our future."

Well, the future is here. On August 5, Standard & Poor's, a rating agency, stripped the United States of its AAA credit rating. The reaction has been swift, painful, and, in some cases, thoughtless.

The swift and painful came from worldwide markets. The first trading day after the announcement saw a 600 point, 5.5 percent drop in the Dow Jones Industrial Average. Even the price of oil tumbled.

The thoughtlessness came from those who sought to lay blame on the "other guys." It's akin to the father of our American family blaming the mother for all of the spending racked up over decades. Others blamed the messenger: Standard & Poor's. We can quibble about whether they should have downgraded the debt or just put out a warning. But really, did they tell us anything we didn't already know?

What is needed is an old-style family meeting with the parents and kids. The first step is to get everyone to understand the facts. No more posturing. As Sergeant Joe Friday used to say in the TV series *Dragnet*, "Just the facts, ma'am, just the facts." Our collective family needs to know how revenue is raised, how it is spent, and how unsustainable our favorite programs have been. This is nothing new. My ecology professor in the 1970s showed us how the math behind Social Security would eventually lead to failure.

It's time to address our American family's budget in a way that is constructive and healthy. The time is right for our leaders to lead and for the rest of the family to encourage that leadership by showing a sincere interest in solving the problem.

This article is limited to the dissemination of general information pertaining to Burns Advisory Group's ("BAG") investment advisory services and general economic market conditions. The information contained herein should not be construed as personalized investment advice, and should not be considered as a solicitation to buy or sell any security or engage in a particular investment strategy. Past performance is no guarantee of future results, and there is no guarantee that the views and opinions expressed in this article will come to pass. Individual client needs, asset allocations and investment strategies differ based on a variety of factors. BAG is neither a law firm, accountant nor tax adviser. We recommend that you seek the advice of a qualified attorney, accountant or tax advisor for legal or tax services.

BAG is an SEC registered investment adviser with its principal place of business in the State of Oklahoma. BAG and its representatives are in compliance with the current registration and notice filing requirements imposed upon registered investment advisers by those states in which BAG maintains clients. BAG may only transact business in those states in which it is noticed filed, or qualifies for an exemption or exclusion from notice filing requirements. Any subsequent, direct communication by BAG with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For information pertaining to the registration status of BAG, please contact BAG or refer to the Investment Adviser Public Disclosure web site (www.adviserinfo.sec.gov). For additional information about BAG, including fees and services, send for our disclosure statement as set forth on Form ADV using the contact information herein. ©2011 Burns Advisory Group. All rights reserved.