

Perspectives - On Business

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Interest(ing) Change

"The great thing in this world is not so much where we stand as where we are moving." - Oliver Wendell Holmes

Anyone who has had kids in their life understands one immutable law of human nature: If you do something three times, it becomes expected. When that behavior isn't repeated, then an unwritten "rule" is being broken.

Such it is with the Fed and the financial press, which hangs on every word uttered by the Federal Open Market Committee. Last week they changed their tune on short term interest rates. Not much, mind you. They simply altered their phrasing a little to indicate that they "could be patient" with regard to raising interest rates.

The change eliminated the reference that rates would not be changed for "a considerable period." Sources indicate that language has been used since August, and that Money Managers have believed it to mean that rates wouldn't change for about a year. Now they are concerned that rates will possibly change as early as this spring or summer.

Hypervigilant? Perhaps... however, it depends on your reasons for watching.

An interesting sidebar to this fact is that the Federal Reserve also recently reported that U.S. consumers' debt has now exceeded the \$2 trillion mark. This has doubled since 1994.

Low interest rates have been a blessing to the national debt, however they are among factors contributing to a surge in personal bankruptcies. 2003 filings reached an all-time high of 1.6 million households. When interest rates begin to creep upward we can expect this trend might become more of a problem as personal debt burdens increase.

Here's hoping that you and yours are moving in the right direction.

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Future Finances' Market Update

By Max Larsen

Monday, February 2, 2004

Stocks closed lower Friday and for the week, although the gains scored early on in the month kept the major indexes in positive territory for January. The U.S. economy grew at a solid 4% annual rate in the 4th quarter. For all of 2003 the economy grew by a solid 3.1%, the strongest showing since 2000.

Semantics

So, what caused the stock markets to have a hiccup last week? One word - *semantics*. The Federal Reserve Board finished their 2-day meeting last Wednesday, leaving the federal funds rate unchanged, but conspicuously changed some key language in its policy directive. It replaced the phrase "policy accommodation can be maintained for a considerable period" with an acknowledgement that it "can be patient in removing policy accommodation."

The Board did not say rates would be hiked, but investors interpreted this to mean the Fed is preparing for an eventual shift to a tightening policy. I don't know why this surprises anyone. We all know that with interest rates at 45-year lows, the Fed will have no choice but to bump them up a little. We've become spoiled with low mortgage rates and car loans.

Note: This may well be the last chance you have to refinance your mortgages at these low rates. Don't let the opportunity slip by. Also, for those of you in Columbus, OH who are in need of an auto loan: Ohio Central Savings in Dublin was offering 3-year car loans at 3.45%. That's the lowest I can ever recall.

Spending - Out of Control

During recessions, it's normal for the government to spend more than they take in since it acts as a stimulus. The \$820 billion "omnibus" spending bill that is heading for President Bush's signature is a joke and the media is finally taking notice with headlines like: "More Fiscal Madness", "GOP Spending Spree" and "Conservatives Uneasy With Bush's Spending."

This bill pays for the operations of 11 cabinet departments and scores of federal agencies, but included in the legitimate spending is nearly \$11 billion in handouts. It includes \$50 million for an indoor rain forest in Iowa, \$200,000 for the Rock and Roll Hall of Fame, \$500,000 for a water taxi in Pittsburgh, \$225,000 for the Wheels Museum in New Mexico, \$225,000 to help Hawaii celebrate its statehood and \$450,000 for Alaska's celebration.

The number of these projects, referred to as "earmarks" by Congress, has increased drastically in recent years. According to an editorial in *The Columbus Dispatch*: "The Heritage Foundation, a conservative think tank, reports that five years ago, the budget included 2,000 earmarks. By 2003, these had increased to 9,632. Taxpayers for Common Sense, a watch dog group, estimate that (this) bill includes at least 8,000." Put another way, that's 15 sweetheart projects per

Senate member. Aren't the Republicans supposedly responsible for controlling government and spending? This is worse than when Congress was controlled by "tax-and-spend" liberals.

I'm totally disgusted and have written my representatives. Passage of the omnibus bill would raise total discretionary spending to more than \$900 billion in 2004. By contrast, the eight Clinton-era budgets produced discretionary spending growth from \$541 billion in 1994 to \$649 billion in 2001. If President Bush doesn't veto this bill, history will have him as the biggest spender since Lyndon Johnson. I'm not opposed to debt during a recession, but not on pork-laden spending. This is money we don't have. No one could run a household or a business this way and expect to remain solvent, so what gives with Congress and the president?

I apologize for my diatribe but I needed to get that off of my chest. If spending isn't controlled now we can say goodbye to our tax cuts in the next few years. Please take a few moments to contact your representative and tell them to shape up or ship out! I'll be back next week my friends.

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