

Martone Capital Management: Weekly Investment Commentary (1/7/2013)

Stock markets started 2013 off with a bang, as investors expressed relief over the down-to-the-wire agreement on the fiscal cliff that came on January 1st.

Although the deal reached last week was good news for the markets, Washington's fiscal soap opera is far from over. We would point to three key events to watch during the first quarter, all of which could have some impact on the economy and financial markets. First, at some point in February the United States will reach its borrowing capacity. Technically, the United States hit the \$16.4 trillion debt ceiling on December 31, but the Treasury department will be able to stretch out the nation's cash for another six to eight weeks. At some point in late February, however, either the debt ceiling will have to be raised or spending will have to be dramatically cut. Outright default on the country's debt is not a real risk, but the fight over the debt ceiling and spending cuts will most likely go down to the last minute and cause no small amount of uncertainty (as happened with the fiscal cliff debate).

In addition to the debt ceiling, the country is also faced with the March 1 deadline for the scheduled \$108 billion in spending cuts (the "sequester" that was delayed as part of the fiscal cliff deal). If Congress and President Obama are unable to come to a spending agreement before that date, the cuts will be triggered and will act as a significant fiscal drag on the US economy. Finally, Congress also needs to pass another appropriations bill before March 27 when some current funding provisions expire. If this is not done, Washington will be unable to fund large parts of the government, which would create additional economic problems.

The bottom line for all of this is that investors will be facing at least another few months in which budget and spending negotiations will have the potential to disrupt financial markets. While we ultimately expect that the debt ceiling will be raised and that we will see a messy compromise on spending, such agreements will not come easily. As such, we expect that market volatility will remain elevated for the next few months as investors continue to focus on the US fiscal drama.

Thank you for your continued confidence in Martone Capital Management.

We welcome your comments and questions.

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William Martone is President and Senior Portfolio Manager of Martone Capital Management, Inc., which was founded in 1994. Bill has almost 40 years of experience in the financial services industry and manages portfolios for both individual investors and pension funds using multiple investment strategies. Bill is a Chartered Financial Consultant, Chartered Life Underwriter, and New York State Registered Investment Advisor. He is frequently quoted in the Westchester Journal Business News as well as other publications. Martone Capital Management was featured on CNNfn.