



Stock markets

Nervous local investors see damage done even if default is avoided

By Michael L. Diamond

Staff Writer

Investors on Friday continued to watch the drama of the debt ceiling debate unfold, confident that the two sides would hash out an agreement by the Tuesday deadline and avoid an economic crisis.

But there is little chance the U.S. escapes any damage, experts said. At the very least, investors will wonder if the nation's political system can solve tough problems.

Once you get this close to default, "you create certain scar tissue that is there," said Avery Byrd, chairman and chief executive officer of Toussaint Capital Partners, a New York investment firm. "Once it's there, even though folks have short memories, they aren't going to forget you really took this to the brink."

The Republican-controlled House of Representatives late Friday voted for Speaker John Boehner's debt-ceiling plan, but Senate Democrats shot it down less than two hours later. President Barack Obama has threatened to veto the House's short-term proposal if it got to his desk because it would force a

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similar vote next year during an election season.

The federal government has four days or so to increase the nation's borrowing limit beyond its current level of about \$14.3 trillion so that it can pay all of its bills.

No one knows what would happen if the deadline passes without an agreement. But economists paint a grim picture if the debate draws on too long. The U.S. would need to pay expenses with the revenue it has. Since it borrows 40 percent of the money it needs, lots of people would be left out.

Investors also would view the U.S., currently among the safest bets, as a bigger risk, making it more expensive for the nation to borrow money. Other borrowers – consumers and businesses, for example – would see higher interest rates too, said Keith Gumbinger, president of HSH Associates, a Pompton Plains company that tracks interest rates.

The bare-knuckled debate comes at a bad time. The economy, although technically out of a recession since June 2009, hasn't picked up enough momentum to create

many jobs. And the government Friday reported that the economy grew just 0.4 percent in the first quarter and 1.3 percent in the second quarter.

There are some signs that the debt-ceiling debate – political posturing or real – is making people nervous. Short-term Treasury bonds, those most likely to be affected by a default, are being viewed as a bigger risk; the interest rate for a six-month Treasury bond was .15 percent on Friday, up from .09 percent last month.

And at least one consumer is cutting back. Marie Krusis, 71, of Tinton Falls, said Friday she canceled her vacation to Maine because of concerns that she wouldn't have enough money, either from Social Security or her stocks, to pay for it.

The economy "is going to go down. So is the stock market. So is everything," Krusis said. "We're in big trouble."

Wall Street slumped this week, but it didn't share Krusis' dire prediction. The Dow Jones industrial average on Friday closed at 12,143, down 96.87. It amounted to a 0.79 percent decline. The Dow fell a little more than 4 percent this week.

Dino Paone, president of Paone Advisors in Wall, said the stock market's

price is a better gauge of the future than the present. By that standard, investors still don't think lawmakers from either party want to be saddled with being the first to plunge the nation into default.

Doug Roberts, founder and chief investment strategist with Channel Capital Research Institute in Shrewsbury, agreed.

"Look, Ron Paul, he was a Tea Partier before there were Tea Partiers. He's saying there's going to be an agreement," Roberts said.

Even if Congress agrees to lift the debt ceiling, the threat of a credit downgrade remains from ratings agencies worried that the U.S. political system is so dysfunctional that it can't reduce its structural deficit.

"If I'm handicapping, there won't be a default, said Byrd, a Colts Neck resident. "But you will have come as close to a technical default as you would ever want to be. I think that will have some tremendous intermediate and lasting repercussions."

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