Investment Experts On Debt Ceiling: Don’t Panic

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With much of the U.S. media focused on the showdown in Washington over the debt ceiling, Central Massachusetts financial advisors are getting their share of calls from concerned investors. Their message: Don't get too worried.

"Nobody's calm with this," said Thomas J. Bartholomew, president and founder of Worcester investment firm Bartholomew & Co. Inc. "It's a mess. But it's politics. It's not really anything other than politics right now."

Bartholomew said it's clear that the largest owners of U.S. Treasury bonds - including the Chinese government and the large pension funds - aren't concerned that the U.S. will actually give up on paying its debts. If those big, well-informed players were worried, he said, they'd be selling off Treasuries, and the prices would be going down.

"If that were really the concern, would they be waiting for the default before the rates change or would they be trading in anticipation of the default?" he said. "Why are they not doing that?"

Bartholomew said he doesn't have too much trouble convincing worried investors that there's no need to drastically alter their portfolios.

"Every single person I've spoken to has believed me," he said. "Not one person has headed for the hills."

John Maher, a financial consultant with CCR Wealth Management in Westborough, said the firm has received some calls, mostly from "the usual suspects"-investors who also called during other major news events like the Japanese earthquake.

Maher said he fully expects political leaders to come to a resolution and raise the debt ceiling before the nation is actually forced to stop paying its bills.

"None of these guys want their picture in the history books next to U.S. default," he said.

Bartholomew said even a technical default wouldn't necessarily make huge changes in the world's faith in investing in the United States. It's "not an argument whether or not we're going to pay our bills," he said, just a question of whether we do it on time.

In a way, the worst damage of the crisis may already have been done. Maher said a credit rating downgrade is "probably inevitable," whether the debt ceiling is raised in the next few days or not.

Maher said that is likely to raise borrowing costs for the country. But he said the impact may be muted because credit rating agencies have lost much of their credibility in recent years, having badly mislead investors about the safety of investments and contributed to the 2008 financial meltdown.

Gary Sherr, an investment adviser with Carl P. Sherr & Co. of Worcester, said the continuing heavy investment in U.S. bonds stands in contrast to the situation in countries like Italy and Greece, where problems are more serious.

"What's happening over there is they haven't actually defaulted, but their interest rates have gone up when they've tried to issue new bonds because it's a risk," he said.

Bartholomew said he expects investors looking for security will continue buying Treasuries, if only because the U.S. remains the "best-looking horse in the glue factory."

"Tell me someplace else in the world you can take your money and be safer," he said.

If a default or the mounting threat of a default has any dramatic effect, Sherr said, it could be a sudden stock market drop, similar to what happened when Congress didn't pass the Troubled Assets Relief Program on its first vote in September 2008. After the market's dramatic reaction, politicians quickly held a re-do and passed the program.

Sherr said that for serious investors that kind of emotional market drop would mostly mean a good buying opportunity. Ultimately, he said, stocks are going to be influenced more by companies' quarterly profits.

"It is earnings season," he said, "and for the most part they're coming in pretty strong."

Maher said he's confident there won't be a huge market reaction to whatever happens with the debt ceiling, simply because observers are well aware of the possibilities and should already be reacting to them.

But he said, as with most issues involving investment, the most important thing is having a diversified portfolio with stocks, bonds and commodities.

"If I'm surprised and there's a big huge flight to somewhere, I'm pretty confident I'm going to own a piece of that capital," he said.