



WEALTH & WELLNESS GROUP

Did You Know? Government Shutdowns

Ronald Reagan

November 1981: 2 days
October 1982: 1 day
December 1982: 3 days
November 1983: 3 days
October 1984: 2 days
October 1985: 1 day
October 1986: 1 day
December 1987: 1 day

George Bush Sr

October 1990: 3 days

Bill Clinton

November 1995: 5 days
Dec 95 - Jan 96: 21 days

Barack Obama

October 2013: 16 days

Donald Trump

January 2018: 3 days
Dec 18 - Jan 19: 35 days

There were no Government shutdowns during George W. Bush's two terms nor any during Joe Biden's single term.

The 21 day standoff between Clinton and a Republican controlled congress centered on cuts to Medicare, Medicaid, and education.

The 2013 battle for Obama was around funding for the Affordable Care Act.

The 2018 holdout with Trump was mostly focused on funding for a border wall.

Source: Google

NO SURPRISE! GOVERNMENT SHUTDOWN

With a government shutdown officially underway, I wanted to take a minute to share some insights and strategies for both coping with it as an investor as well as a few things we are considering on our end. The short story here is that the scale of any potential damage is dependent on how long the shutdown lasts.

To begin, government shutdowns are unfortunately a recurring theme in US politics. Since 1981, there have been 14 funding gaps, with 10 resulting in a shutdown. Only four of those lasted more than a day. The longest one stretched 35 days from late 2018 into early 2019 during Trump's first term. The other three incidents lasted roughly 14 days.

The good news is that most shutdowns have led to nominal declines in U.S. equities and it's worth noting that in all four of the prior multi-day shutdowns, stocks were higher 30 days following the end of the shutdown.

That's a nice way of me trying to say, you don't have to lose any sleep tossing and turning, wondering if dramatic changes are coming now that the government is officially shutdown.

Three observations to consider:

First, I don't want to minimize the fact that some people, including federal workers and some key programs like SNAP and National Parks, will be negatively impacted. Political showdowns like this have ripple effects and they affect real people including family, friends, and colleagues. A quick resolution is obviously best for all.

Second, there are some specific risks to important departments like the Labor Department and programs like Social Security. However, my sense is that many news stations and media outlets will try to amp up the significance of the situation by highlighting unlikely, longer-term outcomes. For example, if the government is shutdown, the Labor Department has said they won't release the non-farm payroll report this Friday.

As a result, I have seen stories about how the delay of this information will complicate the Federal Reserve's ability to lower interest rates. While this report is part of the Fed's data dependent analysis, private and alternative data sources can be used to help navigate traditional data gaps. Furthermore, the Fed's aren't expected to lower rates again until Dec. Hopefully, providing ample time for these and other reports to come in.

Another anxiety-raising story line I have seen recently, is the idea that Cost Of Living calculations for those on Social Security could be delayed, costing people hundreds or even thousands of dollars. While the COLA report is due out in a



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Special Edition: Government Shutdown... Continued

couple weeks (Oct 15), my guess is that this area of the government will find or get funding to follow-through on this task. Basically, during shutdowns funds can be allocated to and from various departments to keep key areas running. Something similar was done in the long 35-day shutdown in 2018-2019.

Third, timing is the key factor. The longer the shutdown goes on, the more likely we are to see increased volatility. Risk and uncertainty will be higher if we reach that 14-day point and beyond. On the surface, we hope this isn't the case, but given the markets remarkable ability to adapt and recover from these disruptions over the years, this period would represent a good buying opportunity.

I think this last point is important because so much of the news and finger-pointing emphasizes the down-side of the shutdown, but opportunities do exist during political turmoil to add to high quality positions at a discounted price.

I realize there is other noise going on including the possibility of permanent government job cuts. However, as it sits today, it's unclear if the threat is real or just a negotiation tactic. Should Trump follow through on the threat, it would likely trigger another court challenge to his executive authority.

On Federal employment, some additional context can help put this situation into perspective. The government workforce has been declining for most of this year and as it sits today, there are roughly 2.29 million civilian government jobs (excluding USPS).

The number of federal employees reached a 30-year high in Sept 2024 when figures topped 2.4 million (excluding USPS). Whether Trump follows through with permanent job cuts now or in the future, analysts expect overall Federal jobs to decline to levels closer to 2021-2022 which averaged closer to 1.96 million.

Getting back to the economic impact, current estimates expect that this shutdown could shave roughly 0.1 to 0.2 percentage points off economic growth for each week that it lasts. While that's not ideal, it doesn't add up to a lot for a \$30 trillion economy. Not to mention, most of that could be recouped shortly after a resolution.

To wrap up, for all the political firestorms government shutdowns generate, historically they have been nonevents for both markets and the economy. In the current case, the market widely expected this closure, which is why markets continue to grind higher. We feel there are nominal risks over the next few days and even the next week or two head. Things get more interesting after that which gives us time us to assess various outcomes and prepare to take advantage to relevant opportunities in any hard hit areas.

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