



Schwartz Financial Services

Comprehensive Wealth Management & Retirement Planning

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Quarterly Economic Update Third Quarter 2016

The third quarter of 2016 was a very confusing one for investors. Investors were served a variety of economic and financial turmoil amid a backdrop of confusing political concerns, but the bull market still continued to move forward. At the quarter's end, the S&P 500 was up 3.31% for the quarter and 6.1% year-to-date. The Dow Jones industrial Average gained 2.11% bringing it to 5.1 % so far this year, and the NASDAQ had a large gain of 9.69% bringing its year-to-date total to a 6.1% gain.

The stock market began the quarter with a slight rally in the first two weeks of July, then stayed quiet until the first week of September. This included a period of lower volatility with the S&P 500 going 42 trading days during that period without moving more than 1%. (The record for low volatility was 62 days hit in July 2014.) That streak quickly changed in one day, and on September 9th, the Dow Jones Industrial Average dropped 400 points, or 2.1%, and the S&P 500 and NASDAQ both dropped 2.5%. The catalyst for this was investor concern over whether the Federal Reserve would raise short-term interest rates at its September 21st meeting. During that session, the Fed decided to wait, which seemed to please investors, and equity markets mounted a late September rally that offset the month's earlier loss. By the quarters end, the S&P 500 held to its gains of early July by finishing flat in August and September.

While the quarter ended on an up note, in September investors were reminded once again to watch out for the market's volatility. Deutsche Bank was one of the major drivers of the quarter's final week. Shares of the bank plummeted on Thursday, September 29th pulling markets into a selloff before giving them a massive boost on



Friday, September 30th. The U.S. Justice Department proposed a \$14 billion fine in early September for the German bank and reports on September 30th indicate that the bank had settled with the Department of Justice for a fraction of the original fine (*Source: www.thestreet.com 9/30/2016*)

Oil prices, foreign currency valuations, corporate earnings and the upcoming Presidential election are all still major concerns for investors. All of those issues

made a lot of headlines, but for investors, interest rate concerns seemed to still be the main event. The most news generating and interesting situation for the upcoming quarter is who will reside in the White House next January. Investors also need to pay careful attention as to which party will control the Senate in 2017. Although the year only has three months left, this last quarter could bring some unrest to the equity markets.

Here are some specific areas investors should continue to watch in 2016:

Interest Rates

The Federal Reserve choose to keep its Federal-funds target rate at a range of 0.25 to 0.5%, but it strongly implied that an increase is on the horizon. The key news from the Federal Open Market Committee meeting was another ratcheting down of their target rate projections (basically their guesstimates) for the end of 2017 and 2018 by 50 basis points to 1.1% and 1.9%, respectively. This indicates that investors need to consider that we are probably still in a period of lower rates for longer. *(Source: Barron's 9/26/2016)*

The Bank of Japan left their key short term interest rate unchanged at minus 10 basis points. They also said they would target their 10-year Government bond rate at 0% in order to hit its elusive 2% inflation target, rather than allowing this yield to drop to a negative rate. *(Source: Barron's 9/26/2016)*

When the Fed raised interest rates last year in December, their forecasts suggested that 2016 would bring four more rate increases. That created a lot of anxiety for investors. Currently, the Fed is suggesting the possibility of two more rate increase next year. JP Morgan strategist Dubravko Lakos-Bujas cites that this could be good news for stocks, at least in the short term.

For now, investors need to keep a watchful eye on both the Fed and interest rates. If you have any concerns about how this affects your investments then call us or ask at your next financial review.

In Brief...

- The 3rd Quarter of 2016 was a positive one for equities.
- Interest rates remain unchanged and long-term target rates suggest low rates for a long period of time.
- Oil and energy prices increased but remain volatile.
- Presidential debate is one of the most watched of all time.
- The 4th Quarter can bring volatility and investors need to be prepared.
- **Call us if you have any changes to your personal situation.**

Oil and Energy Prices

The trend for higher oil and gas prices has continued, and a report from the Dallas Federal Reserve branch in the week of September 30th showed that the energy sector's activity rose in the third quarter. *(Source: www.247wallstreet.com 9/30/2016)*

Crude oil ended September with a monthly gain of nearly 8%. The last week's gains helped push crude to a one-month high after the Organization of Petroleum Exporting Countries (OPEC) came to a production freeze agreement. As we head into the final quarter of the year, OPEC has provided the market with uncertainty. We remain watchful as there are many factors that could send the price of oil higher or lower in a flash over the coming three months. *(Source: Seeking Alpha 10/3/2016)*

Presidential Election 2016

This year features one of the most interesting and controversial political landscapes of all time. The first debate between Hillary Clinton and Donald Trump was compared to the famous Muhammed Ali "Rumble in the

Jungle” fight as the two candidates squared off at Hofstra University in Long Island, New York.

A large audience of viewers were entertained by both contestants taking personal shots at each other. As for investors, some of the differences in the two candidates remain clear but were not discussed in great detail. Although the two have both suggested to change both income tax and estate tax rates, the success of either plan would still be determined by Congress.

For now, investors should continue to watch and see how the election plays out and after the results are in, we can update our clients with some suggested strategies.

Should I Stay Invested?

October is known for fall weather, pumpkins and playoff baseball. Traditionally, October has had a bad reputation among investors. Some of the biggest market crashes in history took place during October including 3 record slides in 1929. In 1987, the Dow dropped over 22% in one single day, October 19. October is historically the second month of the year with more market crashes after September.

The October Effect theory that stocks tend to decline during the month of October is false. Since 1928, the median stock market return in October is 1%, the average gain is 0.4% and stocks tend to finish the month higher 60% of the time. Despite the positive median returns in October, in election years equities tend to perform poorly. On average, stocks have finished the month slightly lower since 1932 during election years.

A long range study from 1928 to 2014 found that October is also the month of the year with the biggest share of 1% day moves (up or down) in the S&P. In fact, 28% of the trading days in October see over 1% moves (up or down) in the overall index. (Source: Seeking Alpha 10/1/2016)

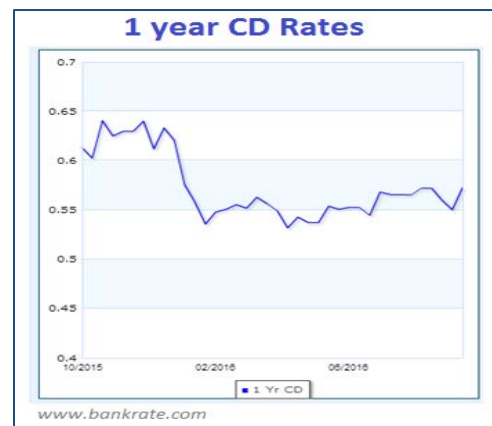
According to a detailed report prepared by McKinsey and Co., the forces that have driven exceptional investment returns over the past 30 years are

weakening, and even reversing. They conclude that it may be time for investors to lower their expectations. Total returns on equities and bonds in the United States and Western Europe from 1985 to 2014 were significantly higher than the long-term average. These returns were driven by an extraordinary confluence of favorable economic and business fundamentals. (Source: McKinsey.com 4/2016)

The report concludes that investors should lower their equity return expectation. Also, today’s low interest rates are not helping investors. Today’s equity market will require patience for investors and your portfolio needs to be one that is adjusted to your specific situation. **If you have any questions about your investments, call us or bring these concerns up at your next review.**

CONCLUSION

Volatility might return for investors and therefore we need to proceed with caution. We are carefully monitoring equity markets and interest rates so we can communicate with clients. Market volatility is a part of investing and instead of being worried by volatility, try to be prepared.



Today’s fixed rate returns will not help most investors reach their financial goals so they probably will need to include equities in portfolios. As the 1 year CD rate chart from Bankrate.com shows, through September of 2016 the national rate for 1 Year CD’s remained around .57% (that is far less than 1%). Equity investors should be prepared to take a long-term approach when looking at returns. Your time horizon, goals, and tolerance for risk

are key factors we consider in helping to ensure that you have an investment strategy that is created for you.

Three questions you should ask yourself are:

1. **Have my time horizons or needs changed?**
2. **What are my investment cash flow needs for the next few years?**
3. **Am I comfortable if my investment returns fluctuate?**

Instead of focusing on the markets, focus on your specific situation. Your answers to these questions will govern how we recommend investment vehicles for you to consider. We can help you determine which investments to avoid and how long to hold each of your investment categories before making major adjustments. We continually review economic, tax and investment issues and draw on that knowledge to offer direction and strategies to our clients.

We pride ourselves in offering:

- consistent and strong communication,
- a schedule of regular client meetings, and
- continuing education for our team on the issues that affect our clients.

A skilled financial professional can help make your journey easier. Our goal is to understand our clients' needs and then try to create a plan to address those needs. We continually monitor your portfolio. While we cannot control financial markets or interest rates, we keep a watchful eye on them. No one can predict the future with complete accuracy, so we keep the lines of communication open with our clients. Our primary objective is to take the emotions out of investing for our clients. We can discuss your specific situation at your next review meeting, or you can call to schedule an appointment. As always, we appreciate the opportunity to assist you in addressing your financial matters.

Schwartz Financial 2016 Client Advocate Program

This year, our goal is to offer our services to several other clients like yourself. We would be honored if you would:

- Suggest a friend to receive our mailings
- Share this newsletter with a friend or colleague
- Bring a guest to one of our workshops
- Share the news of our complimentary consultations

Those clients who do any of the above will be entered into our Client Advocate Program which includes our sincere gratitude and a special event this fall.

If you are currently not a client of Schwartz Financial, we would like to offer you a complimentary, one-hour, consultation with one of our professionals. Please call, 215-886-2122.

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Sources: Barron's, The Wall Street Journal, dallasnews.com, thestreet.com, 247wallst.com, seekingalpha.com, mckinsey.com, bankrate.com, Contents © 2016