
Markets Tumble on China Fears

Weekly Update – January 11, 2016

U.S. equities experienced a brutal tumble last week after more bad news emerged from China. For the week, the S&P 500 lost 5.96%, the Dow dropped 6.19%, and the NASDAQ fell 7.26%.¹

China's ongoing economic woes are causing major turmoil in stock markets around the world. Disappointing data from China included reports that factory activity dropped for the 10th consecutive month, squashing hopes of a 2016 resurgence.²

In this week's update, we've compiled a list of questions and answers to help you make sense of last week's turmoil:

What do China's stock market problems mean for U.S. investors?

In short: not much. China's stock market halted twice last week when emergency "circuit breakers" kicked in to limit volatility.³ However, most U.S. investors are not directly invested in Chinese stocks and are not affected by their markets. Chinese stocks are notoriously volatile and have experienced flash crashes in the past.

Why did U.S. markets react badly to news from China?

We live in an interconnected world where information is transmitted instantly and market overreactions are common. Thursday's selloff came after the Chinese central bank announced yet another devaluation of the yuan, adding to investor fears about the health of the world's second-largest economy.⁴ The move could also spark a global currency war as other countries devalue their currencies to compete with cheaper Chinese goods.⁵

The question on everyone's minds: How will China's slowdown affect the rest of the world? Investors see weakness in China and fear how it will affect U.S. corporations and our domestic economy. With the 2016 growth picture already modest, investors are poised to react negatively to any news that seems even slightly threatening.

Should I be worried about the U.S. economy?

Probably not. China is our third-largest export market but accounts for just 0.8% of our GDP.⁶ While a severe slowdown in China won't be good for global growth, the U.S. economy is on track for modest growth this year. We'll know more about how our economy fared last quarter at the end of the month.

What we do know is that the labor market continues to improve, adding 292,000 jobs in December. October and November numbers were also revised upward, indicating that growth is sustained.⁷ Since domestic consumption accounts for two-thirds of U.S. economic activity, we can hope that these improvements will translate into higher consumer spending.

It's not clear yet whether China is moving into a recession. Exports have largely fueled its past economic growth, and political leaders are struggling to wean the country off foreign demand.⁸ Will leaders be successful in transitioning to a more consumer-led economy? We'll see.

What should I do as an investor?

For now, stay calm and focused on your personal goals. Regardless of what you might be hearing on the news, last week's drop was not panic selling. Investors are caught up in global growth worries as they have been for months.

We cannot predict when markets will return to positive growth, and it's possible that volatility and weakness may persist in the weeks to come. What we know is that historically, markets have not usually entered bear territory (sustained drops of 20% or more) unless accompanied by a recession.⁹ Though we cannot rule out prolonged market weakness, a severe drop would be a historical anomaly.

Fourth-quarter earnings season will move into high gear in the coming weeks and investors will have plenty of other news to digest. We are closely monitoring markets and taking a hard look at fundamental factors. If we believe that changes need to be made to your portfolio, we will contact you directly. If you have experienced any life changes or shifts in your perspectives on risk, please let us know.

As always, if you have any questions about markets or concerns about your personal situation, please give us a call.

ECONOMIC CALENDAR:

Tuesday: JOLTS

Wednesday: EIA Petroleum Status Report, Beige Book, Treasury Budget

Thursday: Jobless Claims, Import and Export Prices

Friday: PPI-FD, Retail Sales, Empire State Mfg. Survey, Industrial Production, Consumer Sentiment, Business Inventories

Data as of 1/8/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	-5.96%	-5.96%	-6.79%	10.23%	4.95%
DOW	-6.19%	-6.19%	-8.72%	8.00%	4.92%
NASDAQ	-7.26%	-7.26%	-1.95%	14.36%	10.14%
U.S. Corporate Bond Index	0.65%	0.65%	-3.59%	1.09%	1.15%
International	-6.15%	-6.15%	-7.10%	-0.41%	-0.92%
Data as 1/8/2016	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.20%	0.45%	0.64%	1.57%	2.13%

Notes: All index returns exclude reinvested dividends, and the 5-year and 10-year returns are annualized. Sources: Yahoo! Finance and Treasury.gov. International performance is represented by the MSCI EAFE Index. Corporate bond

performance is represented by the DJCBP. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

HEADLINES:

Motor vehicle sales ride wave to blockbuster December. Auto manufacturers ended a record year last month, selling 17.47 million new vehicles and beating the previous record in 2000. Cheaper gas and pent-up demand contributed to improved sales.¹⁰

Factory orders slip in November. Orders for manufactured goods dropped 0.2% in November, pointing to continued weakness in the manufacturing sector.¹¹

Construction spending falls in November. Spending on construction projects fell for the first time in 17 months, dipping 0.4% in November. While home construction was up, non-residential categories fell.¹²

Manufacturing activity slumps. A gauge of manufacturing activity dropped for the second month in a row in November as global weakness weighs on U.S. manufacturers.¹³



"It is not enough to be busy; so are the ants. The question is: What are we busy about?"
– Henry David Thoreau



Warm Sweet Potato Kale Salad



The crisp apples add a delicious sweetness without added sugar.

Serves 4

Ingredients:

2 sweet potatoes (about 2 pounds), peeled and cut into small pieces
6 tablespoons olive oil
Black pepper
3 tablespoons fresh lemon juice
2 tablespoons Dijon mustard
2 bunches Tuscan, lacinato, or curly kale, thick stems removed and leaves torn into bite-size pieces (about 10 cups)
1 crisp and sweet apple (such as Pink Lady, Honeycrisp, or Gala), washed and thinly sliced
1/4 cup roasted almonds, slivered or chopped
2 ounces grated pecorino or other flavorful aged cheese

Chef's tip: Really massage the kale with your fingers to prevent the leaves from being too chewy.

Directions:

1. Preheat your oven to 400° F. Toss the sweet potato chunks with 2 tablespoons of the olive oil and a generous sprinkle of black pepper. Toss and layer on two baking sheets. Roast the potatoes until tender for about 15-20 minutes. Stir them and rotate the baking sheets halfway through. Let them cool slightly while preparing the kale.

2. While the potatoes are baking, make the dressing by whisking together lemon juice, mustard, remaining olive oil, and a sprinkle of black pepper. Pour into a large bowl.
3. Add the torn kale and massage the dressing into the leaves with your hands to tenderize.
4. Add the apple slices, cooled potatoes, almonds, and grated cheese and toss.
5. Serve the salad warm.

Recipe adapted from Charlyne Mattox | RealSimple.com¹⁴



IRS Gets New Power to Revoke Passports

Owe the IRS more than \$50,000? You might want to cancel that vacation. Starting this month, the IRS will have the power to revoke the passport of any taxpayer owing \$50,000 or more, including penalties and interest. While the details of the law are still being analyzed by legal experts, it marks a serious increase in the IRS's enforcement powers.

Notably, if you are currently paying off the debt or are contesting a tax bill in court, you should not be affected. However, anyone under an IRS tax lien could find their ability to travel hampered.

If you have any questions about tax debts or other complex tax issues, contact a qualified attorney or tax specialist.

Tip courtesy of Fox Business¹⁵



Stay Focused and Avoid Distractions

Successful shots depend on your mental game as much as your physical ability. One way to improve your mental focus is by placing your attention only on the things that matter: the type of shot you're playing, your target, and your strategy for the swing. Avoid the distractions of your partners, negative thoughts, fears, or other attention-robbing factors.

If you find yourself focusing on distractions, regroup and refocus by taking a few breaths and tuning in to your swing. Don't feel rushed into a swing when you're not completely focused on your goal. Here's a quick routine:

- Give yourself a quick timeout to regroup.
- Use your eyes to refocus on your target.
- Use self-talk to tell yourself where your attention should go.
- Take a few calming breaths to relax and get your mental game back on track.

Tip courtesy of Rick Sessinghaus | Golf Tips Mag¹⁶



Watch Out for Food and Drug Interactions

Even healthful foods can cause problems when they interact dangerously with drugs you may be taking. Always read prescription instructions carefully and tell your doctor about any vitamins or dietary supplements you are taking.

- Watch out for potassium-rich foods like bananas and salt substitutes when taking ACE inhibitors.
- Avoid wine, beer, aged cheeses, and other fermented foods when taking MAOIs.
- Don't wash down antibiotics with dairy as the molecules may bind and rob the medicine of its effectiveness.
- Stay away from grapefruit if you're taking statins to control your cholesterol.

Tip courtesy of AARP¹⁷



Get Better Gas Mileage

Even if your car isn't especially gas-efficient, there are still some tips and tricks to get better gas mileage and reduce your carbon output.

Slow down to avoid guzzling gas. One estimate found that every 10mph you drive above 60 adds \$0.50 to the price of a gallon of gas.

Check your tires. Get into the habit of checking your tire pressure every couple of times you fill up your tank. Keeping the tire pressure within the manufacturer's spec will improve your mileage and reduce wear on your tires.

Replace air filters. Cleaning or replacing your car's air filter can help your engine run more efficiently. A new oxygen sensor can also help improve mileage.

Tip courtesy of Good Housekeeping¹⁸

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We love being introduced!

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Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Diversification does not guarantee profit nor is it guaranteed to protect assets.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

The Dow Jones Corporate Bond Index is a 96-bond index designed to represent the market performance, on a total-return basis, of investment-grade bonds issued by leading U.S. companies. Bonds are equally weighted by maturity cell, industry sector, and the overall index.

The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate. The index is made up of measures of real estate prices in 20 cities and weighted to produce the index.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

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¹ <http://finance.yahoo.com/q/hp?s=%5EGSPC&a=11&b=28&c=2015&d=11&e=31&f=2015&g=d>

<http://finance.yahoo.com/q/hp?a=11&b=28&c=2015&d=11&e=31&f=2015&g=d&s=%5EDJI%2C+&q=1>

<http://finance.yahoo.com/q/hp?a=11&b=28&c=2015&d=11&e=31&f=2015&g=d&s=%5EIXIC%2C+&q=1>

² <http://www.businesstoday.in/markets/global-markets/asian-markets-on-january-4-trade-china-factory-data-slips/story/227697.html>

³ <http://www.reuters.com/article/us-china-markets-idUSKBN0UM02K20160108>

⁴ <http://www.reuters.com/article/us-usa-stocks-idUSKBN0UL1BD20160108>

⁵ <http://www.cnn.com/2016/01/09/sp-500-in-a-world-of-pain-so-sell-any-rally-technician.html>

⁶ <https://www.uschina.org/china-hub/exports-china-share-gdp>

⁷ <http://www.foxbusiness.com/economy-policy/2016/01/08/december-jobs-report/>

⁸ <http://blogs.wsj.com/economics/2016/01/04/imf-chief-economists-2016-warning-watch-out-for-china-and-emerging-market-volatility/>

⁹ <http://www.businessinsider.com/sp-500-bear-markets-and-recessions-2015-8>

¹⁰ <http://www.foxbusiness.com/industries/2016/01/05/flat-chrysler-december-vehicle-sales/>

¹¹ <http://www.marketwatch.com/story/factory-orders-slip-02-in-november-2016-01-06>

¹² <http://www.myfoxboston.com/news/us-construction-spending-falls-04-percent-in-november/12998889>

¹³ <http://www.foxbusiness.com/economy-policy/2016/01/04/us-manufacturing-falls-deeper-into-contraction-territory/>

¹⁴ <http://www.realsimple.com/food-recipes/browse-all-recipes/kale-salad-sweet-potato-apple#comments>

¹⁵ <http://www.foxbusiness.com/economy-policy/2016/01/05/irs-gets-new-powers-to-revoke-passports/>

¹⁶ <https://www.youtube.com/watch?v=licL8ONrfP4>

¹⁷ <http://www.aarp.org/health/drugs-supplements/info-2015/food-drug-interactions-photo.html?intcmp=HEA-HLLV-FLXSLDR-SLIDE2-MAIN#slide3>

¹⁸ <http://www.goodhousekeeping.com/home/a18573/ways-to-go-green/>