
Stocks Rally After Fed Stands Pat

Weekly Update – September 26, 2016

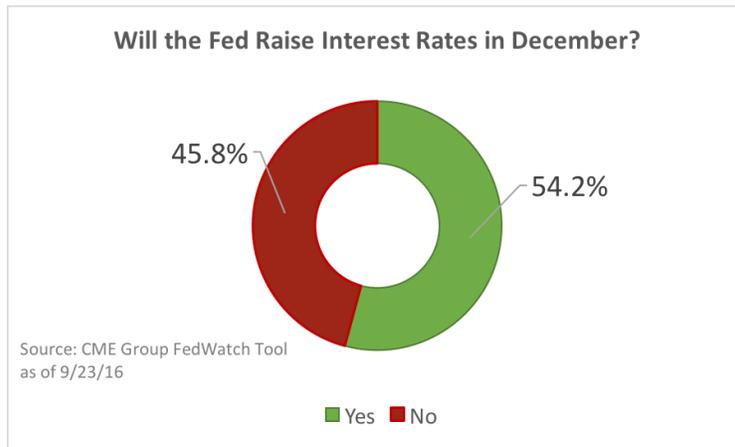
Stocks rallied again last week after the Federal Reserve voted not to raise interest rates this month. While few expected the Fed to act last week, official statements suggest the path to higher rates looks clearer. For the week, the the S&P 500 gained 1.19%, the Dow grew 0.76%, the NASDAQ added 1.17%, and the MSCI EAFE stayed stable.¹

Let's dig more deeply into the Fed's recent statements. The Fed cited continued strength in the labor market, economic growth, and better wage growth in its case for higher interest rates. However, tepid inflation (largely due to lower energy prices) and a desire to get the timing right caused most of the Federal Open Market Committee (FOMC) to vote to hold rates steady.²

Three members of the FOMC dissented from the majority vote, believing that the Fed should have raised interest rates this month. One dissident, Boston Fed President Eric Rosengren, believes that the labor market could overheat in 2017, potentially derailing the economic recovery if action isn't taken.³

An overheating labor market could send wages to unsustainably high levels while productivity (output per worker per hour) falls. While higher wages might sound pretty good to American workers, unsustainable labor market trends could lead to the sharp recessionary contraction economists want to avoid. However, the health of the labor market doesn't boil down to a single measure of unemployment, and the rest of the committee seems to believe that raising interest rates too soon is riskier than potentially raising them too late.

The market appears to agree, and investors see the Fed reinforcing the idea that the economy still has room to grow. At least one Wall Street analyst believes we're in the "sixth or seventh inning of a nine inning game."⁴ Despite the Fed's increasingly hawkish tone about raising interest rates, Wall Street isn't fully convinced the central bank will pull the trigger in December. Though the FOMC will meet again in November, the Fed is unlikely to make a move until after the election. The latest estimate of trading interest shows that traders view the odds of higher rates in December at 54.2%.⁵



The Fed has worked hard to convince the public that it intends to raise rates soon. Why? One of the tools the central bank can use to affect markets is that of its “bully pulpit,” the leverage of its powerful position. In the past, the Fed has used the bully pulpit to sound the warning about irrational market highs and give Americans plenty of notice about future policy moves. The Fed hopes that telegraphing plays will give markets time to digest the news and avoid a shock.

This week, Monday’s presidential debate and a key meeting of Organization of the Petroleum Exporting Countries (OPEC) members could lead to more market volatility. Oil prices have been a major driver of market movements this year and movement toward freezing production (thereby reducing the supply glut that is contributing to low prices) would cause volatility. How likely is a coordinated production freeze? Not very likely since it would require historic cooperation between geopolitical opponents such as Saudi Arabia and Iran.⁶ We’ll keep you informed.

ECONOMIC CALENDAR:

Monday: New Home Sales, Dallas Fed Manufacturing Survey

Tuesday: S&P Case-Shiller HPI, Consumer Confidence

Wednesday: Durable Goods Orders, EIA Petroleum Status Report

Thursday: GDP, International Trade in Goods, Jobless Claims, Pending Home Sales Index

Friday: Personal Income and Outlays, Chicago PMI, Consumer Sentiment

Data as of 9/23/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	1.19%	5.91%	11.65%	18.10%	6.46%
DOW	0.76%	4.80%	12.17%	13.91%	5.87%
NASDAQ	1.17%	5.96%	11.64%	22.73%	13.91%
U.S. Corporate Bond Index	0.84%	8.57%	7.99%	5.36%	7.45%
International	0.00%	-3.00%	0.63%	4.09%	-1.09%
Data as of 9/23/2016	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.

Treasury Yields (CMT)	0.09%	0.40%	0.60%	1.16%	1.62%
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Notes: All index returns exclude reinvested dividends, and the 5-year and 10-year returns are annualized. Sources: Yahoo! Finance, S&P Dow Jones Indices and Treasury.gov. International performance is represented by the MSCI EAFE Index. Corporate bond performance is represented by the SPUSCIIG. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

HEADLINES:

Housing starts fall more than expected. Groundbreaking on new houses fell 5.8% in August as building activity declined broadly after increasing this summer. However, a rebound in permits for new houses suggests housing demand may strengthen.⁷

Existing home sales fall for second straight month. Home resales fell in August, dinged by a shortage of housing inventory on the market. Growth in home prices is outpacing wage growth, weighing on sales activity.⁸

Weekly jobless claims fall. The number of Americans filing new claims for unemployment benefits fell by 8,000 to a two-month low last week. Continued labor market growth could give the Fed the green light to raise interest rates in December.⁹

Manufacturing gauge drops to three-month low. A measure of manufacturing activity slipped in September as weakness in new orders and a strong dollar weighed on demand. New orders rose at the slowest rate this year and hiring was slow.¹⁰



“Whether you think you can or you think you can’t —you’re right.”

—Henry Ford



White Bean and Sausage Soup



This hearty soup is quick and easy to make on busy weeknights.

Serves 4

Ingredients:

- 1 tablespoon olive oil
- 1 12-ounce package fully cooked chicken sausage, sliced
- 1 medium onion, thinly sliced
- 2 cloves garlic, thinly sliced
- 1 19-ounce can cannellini or navy beans, drained and rinsed thoroughly
- 1 14.5-ounce can low-sodium chicken broth
- 1 14.5-ounce can diced tomatoes
- 1 bunch kale leaves, rinsed, stems removed, and torn into 2-inch pieces
- Kosher salt and black pepper
- 1 loaf crusty bread (optional)

Directions:

1. Heat a large, heavy-bottomed pot or Dutch oven with the olive oil over medium heat.
2. Add the onions and cook, stirring occasionally until golden and translucent.
3. Add the sausage and cook until browned. Add the garlic and cook for a couple of minutes until aromatic.
4. Add the chicken broth, beans, and tomatoes and raise the heat until the soup boils.
5. Add the kale and a pinch of salt and pepper to taste. Simmer for about 5 minutes until the kale is wilted.
6. Ladle the soup into individual bowls with the bread alongside. Alternatively, lay a slice of bread in the bottom and spoon the soup over top.

Recipe adapted from Kate Merker | RealSimple.com¹¹



Early Withdrawal? Here's What You Should Know

Taking money out of your retirement account before age 59 ½ is not something to be undertaken lightly because it can trigger additional taxes and penalties. Here are some things to keep in mind:

- You must report all early withdrawals to the IRS, unless the money is treated as a rollover. For more information about rollovers, consult a qualified tax professional.
- You must generally pay a 10% penalty on top of your income taxes on an early withdrawal, though there are many exceptions to this rule, depending on your retirement plan or account.
- If you make an early withdrawal, you may need to file Form 5329, "Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts," along with your federal tax return.

The tax treatment of retirement accounts can be complicated, and it's a very good idea to consult a financial professional who understands your total financial picture before making early withdrawals.

Tip courtesy of IRS.gov¹²



Tee Up Toward Trouble

If you're faced with a hole with an obstacle or out of bounds area, always tee up on the side the trouble is on. For example, if you have an obstacle on the left side of the fairway, tee up as far to the left as possible so that you can aim right and make a more aggressive swing while safely avoiding the obstacle.

Tip courtesy of John Stahlschmidt, PGA | Golf Tips Mag¹³



Stay Fit as You Age

Medical researchers found that physical decline begins much earlier than originally thought. For most of us, endurance, balance, and strength start declining by the time we hit our 50s.

Though more studies need to be done, current medical knowledge shows that maintaining and ramping up physical activity early is key to staving off physical and mental decline. Even if you're not as active as you should be, it's never too late to start a fitness regime. Speak to your doctor about creating a customized activity routine.

Tip courtesy of AARP¹⁴



Buy for Life

Think carefully about your next household purchase and try to buy items that will last. Statistics suggest that a shocking number of purchases are discarded and thrown away shortly after purchase and many of these items end up clogging landfills. Instead of buying with disposability in mind, think about investing more time and money in a purchase and keeping it as long as possible.

Tip courtesy of Seattle PI¹⁵

Share the Wealth of Knowledge!

Please share this market update with family, friends or colleagues.

We love being introduced!

Securities, advisory services, and insurance products are offered through Investment Centers of America, Inc. (ICA), member FINRA, SIPC, a Registered Investment Advisor, and affiliated insurance agencies. ICA and iWealth are separate companies.

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.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

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 indices from Europe, Australia and Southeast Asia.

The S&P U.S. Investment Grade Corporate Bond Index contains U.S.- and foreign-issued investment-grade corporate bonds denominated in U.S. dollars.

The SPUSCIG launched on April 09, 2013. All information for an index prior to its Launch Date is back-tested, based on the methodology that was in effect on the Launch Date. Back-tested performance, which is hypothetical and not actual performance, is subject to inherent limitations because it reflects application of an Index methodology and selection of index constituents in hindsight. No theoretical approach can take into account all of the factors in the markets in general and the impact of decisions that might have been made during the actual operation of an index. Actual returns may differ from, and be lower than, back-tested returns.

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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<https://www.msci.com/end-of-day-data-search>

² <http://www.cnbc.com/2016/09/21/fed-leaves-rates-unchanged-in-september-meeting.html>

³ <http://www.cnbc.com/2016/09/23/feds-rosengren-explains-his-dissent.html>

⁴ <http://www.cnbc.com/2016/09/23/debate-opece-fed-economy-all-big-risks-lurking-for-markets-in-the-week-ahead.html>

⁵ <http://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html> [Accessed September 23, 2016]

⁶ <http://www.cnbc.com/2016/09/25/reuters-america-update-1-algeria-says-all-options-possible-for-algiers-opece-gathering.html>

⁷ <http://www.foxbusiness.com/features/2016/09/20/us-housing-starts-building-permits-fall-in-august.html>

⁸ <http://www.foxbusiness.com/markets/2016/09/22/existing-home-sales-fall-for-second-straight-month.html>

⁹ <http://www.foxbusiness.com/markets/2016/09/22/weekly-jobless-claims-fall-by-8000.html>

¹⁰ <http://www.marketwatch.com/story/manufacturing-pmi-in-september-slips-to-three-month-low-2016-09-23>

¹¹ <http://www.realsimple.com/food-recipes/browse-all-recipes/bean-sausage-stew>

¹² <https://www.irs.gov/uac/early-retirement-distributions-and-your-taxes>

¹³ <http://www.golftipsmag.com/instruction/full-swing/quick-tips/play-like-a-pro-2014.html#.VDosJ9SUdt8>

¹⁴ <http://www.aarp.org/health/healthy-living/info-2016/fitness-aging-physical-decline-cs.html?intcmp=AE-HEA-HLLV-SPOT1-STAYFIT>

¹⁵ <http://www.seattlepi.com/news/article/10-tips-from-green-living-specialist-Thor-Peterson-1270013.php>