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## Fed Raises Rates

Weekly Update – December 19, 2016

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Last week was mixed for the markets, as the Dow increased by 0.44%, while the S&P 500 lost 0.06%, the NASDAQ dropped 0.13%, and the MSCI EAFE gave back 0.55%.<sup>1</sup> We also saw a variety of data released, giving a similarly mixed view of recent economic activity. Retail sales and the Consumer Price Index showed modest gains, while industrial production and housing starts both declined.<sup>2</sup>

The biggest headline from last week, however, was a development the market anticipated for quite some time: The Federal Reserve decided to raise its benchmark interest rates—for only the second time since 2006.<sup>3</sup>

### **Why did the Fed raise rates?**

The Federal Open Market Committee (FOMC), the group of Fed officials who meet to determine interest rates and other policies choices, has a mandate to “foster maximum employment and price stability.”<sup>4</sup> In its quest to uphold this mandate, the FOMC aims to keep inflation at 2%, as this level can help support accurate financial forecasting and decisions while preventing harmful deflation.<sup>5</sup>

The act of adjusting interest rates can help control inflation and support economic strength. At its most basic, when the Fed lowers rates, they are indicating that the economy is contracting—and when they raise rates, they are indicating that the economy is growing.

When describing her organization’s decision to raise rates this month to a range of 0.5 – 0.75%, Fed Chairwoman Janet Yellen said, “My colleagues and I are recognizing the considerable progress the economy has made. We expect the economy will continue to perform well.”<sup>6</sup> The FOMC also said they may introduce three additional interest rate increases in 2017, up from their previous prediction of two raises.<sup>7</sup>

In other words, the Federal Reserve believes our economy is on the right track and inflation may begin to rise. They are using the tool of interest-rate increases to help keep employment and inflation at healthy levels.

### **How did the markets react to the interest rate increase?**

Overall, investors seemed to react reasonably to the interest rate increase. The VIX, a measure of expected volatility in the markets, increased by 4.6%—but it remains at low levels.<sup>8</sup> In other words, the likelihood of great volatility seems slim.

One area of the market, however, did not respond well to the Fed's interest rate increase and inflation increase prediction: bonds. This summer, global bond markets experienced a rally in response to a variety of factors, including potential slowing economic growth worldwide. But since the U.S. election, the value of government debt has dropped by more than \$1 trillion, as investors now expect greater inflation and a quickening economy.<sup>9</sup> Essentially, the faster the economy and inflation grow, the less value that long-term government debt holds—contributing to the bond market's recent losses.

### How could the rate increase affect you?

Rising interest rates have both positive and negative effects for individuals. If you have money earning interest in the bank, you can expect to earn a slightly higher return. Conversely, if you borrow money—such as taking out a new mortgage or refinancing existing liabilities—your interest rate may be higher than before the Fed's announcement.

In addition, the interconnected relationships between equities, bond markets, and other financial vehicles will evolve as interest rates increase. These shifts can be much more complex, and we are here to help you stay on top of any changes and align your financial life with the current market environment.

### ECONOMIC CALENDAR

**Monday:** Janet Yellen speaks at 1:30 p.m. ET

**Wednesday:** Existing Home Sales

**Thursday:** Durable Goods Orders, GDP

**Friday:** New Home Sales, Consumer Sentiment

Data as of 12/16/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	- 0.06%	10.48%	8.92%	17.03%	5.82%
DOW	0.44%	13.88%	11.80%	13.44%	5.94%
NASDAQ	- 0.13%	8.58%	7.22%	22.56%	12.13%
U.S. Corporate Bond Index	- 0.34%	4.22%	4.29%	3.98%	6.50%
International	- 0.55%	- 2.78%	- 1.47%	4.01%	-2.09%
Data as of 12/16/2016	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.46%	0.65%	0.91%	2.07%	2.60%

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 SPUSCIG. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

## QUOTE OF THE WEEK



*"If I had six hours to chop down a tree, I'd spend the first four hours sharpening the axe."*

– Abraham Lincoln

## RECIPE OF THE WEEK



### Tiramisu



*Tiramisu is a luxurious no-bake dessert that's perfect for a dinner party.*

Serves 4 – 6

#### **Ingredients:**

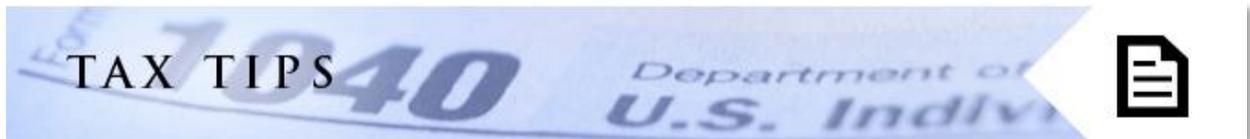
1 tablespoon sugar  
1/2 cup espresso or dark coffee  
1 tablespoon dark liquor (such as dark rum, brandy, bourbon, or Frangelico)  
14 ladyfinger cookies  
32 oz. (2 pints) vanilla ice cream or mascarpone (add 1 extra tablespoon of sugar for the mascarpone)  
2 tablespoons cocoa powder

#### **Directions:**

1. While the coffee or espresso is still warm, whisk the sugar in until it dissolves. Add the liquor and chill. Pour the mixture into a baking dish. Dip each

- ladyfinger quickly, shaking off excess liquid. Line the bottom of an 8x8 baking dish with the ladyfingers, pressing them together and trimming to fit.
2. Beat the vanilla ice cream or sweetened mascarpone with an electric mixer until it's soft and spreadable. Pour the mixture over the ladyfingers, and use a spatula to spread it over the whole dish.
  3. Cover with plastic wrap, and freeze 2 hours until firm or overnight.
  4. Remove it from the freezer about 20 minutes before serving to soften. Dust the top with cocoa powder before serving.

Recipe adapted from Sara Quessenberry | RealSimple.com<sup>10</sup>



### Year-End IRA Reminders

With the end of the year approaching, take a moment to make sure you've taken care of your Individual Retirement Accounts:

- **Contribute the maximum.** In 2016, you can contribute a maximum of \$5,500, or \$6,500 if you are age 50 or over. You cannot contribute more than your taxable compensation, so be sure to adjust your contributions if your compensation was less than these limits. Remember, you must have taxable income in order to contribute to an IRA; but if you are married and filing jointly, you can each make contributions even if only one of you is working. Speak to a tax advisor to learn about how an employer-sponsored retirement plan will affect your deductions.
- **Don't contribute more than the max.** If you contribute more than the IRA limits for 2016 (or more than your income allows you to contribute), you will be subject to a 6% tax on the excess contribution amount for each tax year the money remains in your account. You can withdraw excess contributions by the due date for your tax return.

For more information about IRAs or end-of-year tax planning, please call us or another qualified tax advisor.

Tip courtesy of IRS.gov<sup>11</sup>



### Choose the Right Club

Most amateur golfers choose the club they play based on the length of the shot. They play shorter clubs for shorter distances and longer clubs for longer distances. However, experienced golfers know that factors like natural swing tendencies, wind, lie, and hazards also affect your club choice. Before choosing a club, ask yourself these questions:

- What's the distance to the hole?
- What personal natural tendencies affect my shot?
- How will the wind affect the shot?
- What hazards do I need to watch out for?
- What does the landing area look like?
- What is the follow-up shot?

Tip courtesy of Barry Goldstein | Golf Tips Mag<sup>12</sup>



### Simple Memory Boosters

Age, stress, distractions, and lack of attention make it easier to misplace items, forget names and important details. Here are some simple tricks to help you forge stronger mental connections and boost your memory:

- Remember names by focusing on a new acquaintance's name and making a mental connection between their name and a physical attribute or visual image, e.g. "Tall Paul," or "Golfer Mary."
- If you often stress about remembering to turn the stove off or lock the car door, create a routine in which you complete the action and then consciously tell yourself that you did it. For example, say to yourself, "I'm locking the car doors right now." Each time you do it, you'll create a stronger mental connection.
- Remember where you parked the car by paying attention to what section you're in and developing a strong memory of it by repeating the name aloud and creating a visual connection. For example, section 4F could become four fish swimming in a circle.

Tip courtesy of AARP<sup>13</sup>



## Seal Your Windows

Windows and doors can be major sources of heat loss in your home and can run up your heating bill if left unaddressed. Seal uninsulated windows in out-of-the-way places with bubble wrap by misting the pane with water and pressing the bubble side against the glass.

Tip courtesy of HowStuffWorks<sup>14</sup>

### ***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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<http://finance.yahoo.com/quote/%5EGSPC/history?period1=1481259600&period2=1481864400&interval=1d&filter=history&frequency=1d>

<http://finance.yahoo.com/quote/%5EDJI/history?period1=1481259600&period2=1481864400&interval=1d&filter=history&frequency=1d>

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

<sup>2</sup> <http://www.cnbc.com/2016/12/14/us-retail-sales-nov-2016.html>

<http://www.cnbc.com/2016/12/15/us-consumer-price-index-nov-2016.html>

<http://www.wsj.com/articles/u-s-industrial-production-fell-in-november-1481725116>

<http://www.reuters.com/article/us-usa-economy-idUSKBN1451T3>

<sup>3</sup> [http://www.nytimes.com/2016/12/14/business/economy/fed-interest-rates-janet-yellen.html?\\_r=0](http://www.nytimes.com/2016/12/14/business/economy/fed-interest-rates-janet-yellen.html?_r=0)

<sup>4</sup> <https://www.federalreserve.gov/monetarypolicy/files/monetary20161214a1.pdf>

<sup>5</sup> [https://www.federalreserve.gov/faqs/economy\\_14400.htm](https://www.federalreserve.gov/faqs/economy_14400.htm)

<sup>6</sup> [http://www.nytimes.com/2016/12/14/business/economy/fed-interest-rates-janet-yellen.html?\\_r=0](http://www.nytimes.com/2016/12/14/business/economy/fed-interest-rates-janet-yellen.html?_r=0)

<sup>7</sup> <https://www.federalreserve.gov/monetarypolicy/files/monetary20161214a1.pdf>

<http://abcnews.go.com/Business/wireStory/fed-raises-key-interest-rate-time-year-44192730>

<sup>8</sup> <https://finance.yahoo.com/quote/%5EVIX?ltr=1>

<sup>9</sup> <http://www.wsj.com/articles/bond-rout-deepens-after-fed-rate-signals-1481794245>

<sup>10</sup> <http://www.realsimple.com/food-recipes/browse-all-recipes/tiramisu>

<sup>11</sup> <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-ira-contribution-limits>

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<sup>12</sup> <http://www.golftipsmag.com/instruction/shotmaking/quick-tips/8-tricks-to-become-a-better-player.html#.VI2uzmTF-pw>

<sup>13</sup> <https://stayingsharp.aarp.org/art/discover/16/remember-everyday.html?intcmp=RDRCT-MEM-SSS-BRN-ART-GEN-052716 - slide7>

<sup>14</sup> <http://home.howstuffworks.com/green-living/insulate-windows-bubble-wrap.htm>