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Stocks Set New Records

Weekly Update – July 18, 2016

Stocks were up for the third week in a row, posting record highs on better-than-expected earnings results and solid domestic economic data.ⁱ Since the bottom of the post-Brexit selloff, the S&P 500 has gained 8.06%.ⁱⁱ For the week, the S&P 500 gained 1.49%, the Dow grew 2.04%, the NASDAQ added 1.47%, and the MSCI EAFE grew 3.65%.ⁱⁱⁱ

Despite the upbeat data, violence continues to threaten. On Sunday, three police officers were killed in Baton Rouge, Louisiana. On Thursday, a terrorist drove through hundreds of people in Nice, France, killing at least 84. A thwarted coup by Turkey's military on Friday resulted in hundreds of deaths and could lead to political instability after the president rounded up thousands of suspected plotters.^{iv}

The human cost of violence is incalculable and its effects will be felt by victims for many years to come; however, the effect on markets and economies is measurable. It may seem tasteless to attempt to calculate the cost of terror in dollars and cents, but we should remember that one of the goals of terrorism is to cause financial as well as physical damage.

Some estimates show that 9/11, the largest terrorist attack on U.S. soil, reduced U.S. economic growth by half a percentage point. However, the S&P 500 regained its lost ground within a month.^v In 2005, when terrorists attacked the London tube, the UK market fell sharply, but recovered within days. The British economy actually rose 0.8% that quarter.^{vi} Tourist destinations often suffer more from terrorist attacks because they depend on visitors who may choose safer locations.

The effect of terrorism on global financial markets is usually limited. With markets at record highs, it's possible that we could see a pullback as investors sell first and ask questions later. However, the rally is broad-based and is built on solid fundamentals: June hiring data was strong, retail sales are sharply up, and early reads on corporate profits are favorable.^{vii}

Our View

Our hearts go out to the victims of violence in Baton Rouge, Nice, and Istanbul. While we don't know whether markets will react negatively to renewed security fears, history indicates that markets are quite resilient to violence. Past performance is no guarantee for future results, however, we don't believe that individual attacks are enough to push us into a correction, but headline risk from developing security situations is real.

Though markets reached new highs last week, we should expect continued volatility in the weeks to come. While domestic data is positive, there are plenty of headwinds to give investors pause. Keeping an even keel during both the highs and lows is key to successful long-term investing. As always, we'll keep you updated.

ECONOMIC CALENDAR:

Monday: Housing Market Index, Treasury International Capital

Tuesday: Housing Starts

Wednesday: EIA Petroleum Status Report

Thursday: Jobless Claims, Philadelphia Fed Business Outlook Survey, Existing Home Sales

Friday: PMI Manufacturing Index Flash

Data as of 7/15/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	1.49%	5.76%	2.58%	12.85%	7.49%
DOW	2.04%	6.26%	2.58%	9.67%	7.24%
NASDAQ	1.47%	0.44%	-1.36%	16.06%	14.69%
U.S. Corporate Bond Index	-0.86%	7.91%	8.35%	5.73%	7.96%
International	3.65%	-3.85%	-12.16%	-0.13%	-0.57%
Data as of 7/15/2016	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.27%	0.42%	0.52%	1.15%	1.60%

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.

HEADLINES:

Retail sales jump 0.6%. U.S. retail sales rose more than expected last month, supporting the view that the economy experienced solid growth last quarter.^{viii}

Consumer sentiment falls in July. Americans held a more pessimistic view of the economy in July as they became concerned about future growth.^{ix}

Business inventories rise slightly in May. Stockpiles held by U.S. businesses rose 0.2% in May as retailers restocked to meet buyer demand.^x

Beige book shows U.S. economic growth is moderate. A report issued by the Federal Reserve shows that the economy grew "moderately" in most districts though inflation remains muted.^{xi}

QUOTE OF THE WEEK



"I am not a product of my circumstances. I am a product of my decisions."

–Stephen Covey

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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.

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ⁱ <http://www.reuters.com/article/us-usa-stocks-idUSKCN0ZR18G>

ⁱⁱ S&P 500 price performance between 06/27/16 and 07/15/16

<http://finance.yahoo.com/quote/%5EGSPC/history?period1=1466654400&period2=1468555200&interval=1d&filter=history&frequency=1d>

ⁱⁱⁱ <http://finance.yahoo.com/quote/%5EGSPC/history?period1=1467950400&period2=1468555200&interval=1d&filter=history&frequency=1d>

<http://finance.yahoo.com/quote/%5EDJI/history?period1=1467950400&period2=1468555200&interval=1d&filter=history&frequency=1d>

<http://finance.yahoo.com/quote/%5EIXIC/history?period1=1467950400&period2=1468555200&interval=1d&filter=history&frequency=1d>

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

^{iv} <http://www.telegraph.co.uk/news/2016/07/17/turkey-coup-plot-president-erdogan-rounds-up-thousands-of-soldie/>

^v <http://finance.yahoo.com/quote/%5EGSPC/history?period1=1000094400&period2=1010725200&interval=1d&filter=history&frequency=1d>

<http://www.economist.com/blogs/buttonwood/2015/11/investing>

^{vi} <http://www.economist.com/blogs/buttonwood/2015/11/investing>

^{vii} <https://www.zacks.com/commentary/85922/early-read-on-the-q2-earnings-season>

<http://www.foxbusiness.com/markets/2016/07/15/retail-sales-jump-0-6-in-june.html>

<http://www.bls.gov/news.release/empsit.nr0.htm>

^{viii} <http://www.foxbusiness.com/markets/2016/07/15/retail-sales-jump-0-6-in-june.html>

^{ix} <http://www.foxbusiness.com/markets/2016/07/15/consumer-sentiment-falls-as-expectations-for-economy-dim.html>

^x <http://www.foxcarolina.com/story/32453691/us-business-inventories-rose-slightly-in-may>

^{xi} <http://www.foxbusiness.com/politics/2016/07/13/beige-book-economic-growth-moderate-in-most-districts.html>