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Fed Changes Tune On Interest Rates

Weekly Update – May 23, 2016

Stocks closed out a bumpy week mixed, ending a three-week stretch of losses for the S&P 500 and NASDAQ. The Dow, however, extended losses for a fourth straight week for the first time since 2014.ⁱ For the week, the S&P 500 gained 0.28%, the Dow lost 0.20%, the NASDAQ gained 1.10%, and the MSCI EAFE added 0.16%.ⁱⁱ

Market reactions to the release of the April Federal Reserve Open Market Committee meeting minutes drove much of last week's volatility. The official minutes showed that the Fed is moving away from its cautious stance and is open to raising interest rates as soon as June if data points to a solid second quarter.ⁱⁱⁱ The unexpected hawkishness surprised many investors who weren't expecting a hike until later this year.

However, some professional economists predicted a June hike. The most recent Wall Street Journal survey of economists showed that their experts were split, with 31.4% predicting a June increase, 21.4% favoring a July hike, and 31.4% forecasting a September increase.^{iv} On the other hand, Wall Street largely discounted a June move. Early in the week, before the minutes were released, traders predicted just a 4% chance of a June rate hike. By Friday, that probability had increased to 30%.^v Clearly, the new information is forcing investors to revise their expectations for interest rate movements this year.

The labor market will play a major role in the Fed's June decision. The April jobs report was softer than expected, showing that many employers were reluctant to hire in the face of uncertain business conditions.^{vi} The May jobs report, due on June 3rd, will be key to showing whether the labor market has returned to a strong trend or is continuing to weaken.

Will a strong May jobs report guarantee a June rate hike? Some experts think so while others think the risks posed by Britain's upcoming vote on whether to leave the EU (the "Brexit" you may have read about) will be enough to give the Fed pause.^{vii} All told, it's likely to be a lively June meeting at the Fed.

Volatility is likely to continue in the days and weeks ahead as analysts fixate on predicting when the central bank will raise rates again. While short-term volatility can be stressful to investors who would prefer a steady ride, it's important not to let intraday swings and bumps in the road derail your long-term investment strategies. We'll keep you updated.

ECONOMIC CALENDAR:

Monday: PMI Manufacturing Index Flash

Tuesday: New Home Sales

Wednesday: International Trade in Goods, EIA Petroleum Status Report

Thursday: Durable Goods Orders, Jobless Claims, Pending Home Sales Index

Friday: GDP, Consumer Sentiment, **Janet Yellen Speaks 10:30 AM ET**

Data as of 5/20/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	0.28%	0.41%	-3.46%	10.79%	6.20%
DOW	-0.20%	0.44%	-4.29%	7.97%	5.70%
NASDAQ	1.10%	-4.75%	-5.96%	14.03%	11.74%
U.S. Corporate Bond Index	-0.81%	4.74%	4.27%	5.24%	7.52%
International	0.16%	-4.78%	-15.69%	-0.82%	-1.15%
Data as of 5/20/2016	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.26%	0.46%	0.67%	1.38%	1.85%

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:

April housing starts surge. Groundbreaking on single- and multi-family homes jumped 6.6% last month as construction firms grew more optimistic about business prospects.^{viii}

Industrial production rises. Stronger demand for utilities drove industrial production 0.7% higher in April. However, the manufacturing component rose just 0.3% after declining in March, indicating that U.S. manufacturers are still struggling.^{ix}

Jobless claims fall from 14-month high. Weekly claims for new unemployment benefits fell last week, showing that the previous weeks of increases might have been an anomaly.^x

Existing home sales increase more than expected. Sales of existing homes rose 1.7% in April and March's resales were revised slightly higher, suggesting that the housing market is gaining ground.^{xi}

QUOTE OF THE WEEK



"Keep working no matter what happens. If things are good, keep working. If things are bad, keep working."

– Moby

Easy Ricotta Meatballs



Add ricotta to basic meatballs for tenderness and flavor.

Makes 30 meatballs

Ingredients:

3/4 pound ground beef
3/4 pound ground pork or turkey
1/2 cup whole-milk ricotta
1/3 cup bread crumbs
1/2 cup finely chopped onion
1/4 cup chopped parsley
1/4 cup grated Parmesan
2 tablespoons whole or low-fat milk
1 large egg, beaten
Kosher salt and black pepper

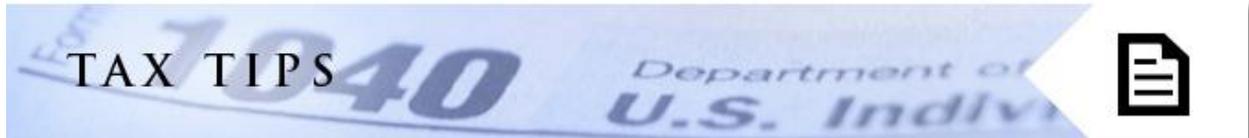
Chef's Tip: To make these meatballs gluten free, skip the bread crumbs and add an extra egg. Make sure to read the ingredients on the ricotta container and the Parmesan to avoid any additives that contain gluten.

Directions:

1. Lay a clean kitchen towel on the counter and spoon the ricotta into it. Twist the ends of the towel together and squeeze out as much of the liquid over the sink as possible. Too much liquid will make the meatballs fall apart.
2. In a large bowl, mix together all of the ingredients with a pinch of salt and a pinch of pepper. Use your hands to incorporate until the ingredients are just combined.

3. Roll the meatballs into 24-30 balls and lay them between layers of parchment paper in a sealable container or a tray you can cover with cling wrap. Refrigerate the balls for at least eight hours or overnight.
4. Cook the meatballs in a pan with 1-2 tablespoons of oil or cook them at 350° F in the oven on a rimmed baking sheet lined with parchment paper for 10-15 minutes.
5. Serve hot with polenta, spaghetti, or by themselves with a simple salad.

Recipe adapted from Sarah Copeland | RealSimple.com^{xii}



Free Tax Help for Military Families

The IRS provides free tax help to military members and families through the Volunteer Income Tax Assistance program. VITA offers free tax preparation and advice at sites on and off base. Volunteers receive training on military-specific tax issues like combat zone tax benefits, special filing extensions, and other special rules.

For more information about filing taxes as a member of the armed forces, speak to a tax professional or see IRS Publication 3, “Armed Forces’ Tax Guide.”

Tip courtesy of IRS.gov^{xiii}



Keep Weight Centered for Better Wedge Shots

Many amateurs have trouble with consistency on their wedge shots because they treat them like a full-swing drive and end up shifting their weight too much. Instead, keeping your weight centered, or even a little left, will flatten your trajectory and give the ball extra spin, making your shots easier to control. Practice hitting wedge shots while keeping your weight balanced throughout the shot and dialing in the swing length based on your distance from the hole. Test different swing lengths to understand how they correlate with distance. By keeping everything else constant, you can avoid having to change up different swing variables and simply focus on distance.

Tip courtesy of Paige Mackenzie, LPGA | Golf Tips Mag^{xiv}



Watch Out for Counterfeit Drugs

Old, fake, and adulterated drugs are becoming a big problem in America. Some estimates suggest that as much as 10% of the global pharmaceutical supply chain may be suspect. Since older Americans account for most of outpatient prescriptions in this country, they are more at risk from black market drugs. Here's what you can do to avoid becoming a victim:

- Be careful where you buy your prescriptions. Many online vendors aren't properly accredited. Prices that seem too good to be true might be for counterfeit drugs.
- Never buy drugs without a prescription.
- Be on the lookout for abnormalities in size, color, or pill shape. Report any concerns to your physician or pharmacist.

Tip courtesy of AARPs^{xv}



Help Your Fridge Keep Cool

When daily temperatures rise and humidity is high, your refrigerator has to work harder to keep its cool. Here's how you can keep your food safe without spiking your energy bill and wearing your fridge out:

- Keep the grill and condenser coils clean and free of dust.
- Give the fridge space by not pushing it up against the wall and leaving a few inches on either side.
- Keep foods covered to avoid releasing additional humidity into the fridge compartment.
- Check your gaskets using a piece of paper. Replace loose or leaky gaskets.
- Don't store perishables in the door.

Tip courtesy of Consumer Reports^{xvi}

Share the Wealth of Knowledge!

Please share this market update with family, friends, or colleagues. If you would like us to add them to our list, simply click on the "Forward email" link below. 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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ⁱ <http://www.cnbc.com/2016/05/20/us-markets.html>

ⁱⁱ <http://finance.yahoo.com/q/hp?s=%5EGSPC&a=04&b=16&c=2016&d=04&e=20&f=2016&g=d>

<http://finance.yahoo.com/q/hp?a=04&b=16&c=2016&d=04&e=20&f=2016&g=d&s=%5EDJI%2C+&q=1>

<http://finance.yahoo.com/q/hp?a=04&b=16&c=2016&d=04&e=20&f=2016&g=d&s=%5EIXIC%2C+&q=1>

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

ⁱⁱⁱ <http://www.cnbc.com/2016/05/18/federal-reserve-minutes.html>

^{iv} <http://projects.wsj.com/econforecast/#qa=20160501001&e=1462995269111>

^v <http://www.reuters.com/article/usa-stocks-weekahead-idUSL2N18H1MK>

^{vi} <https://www.zacks.com/stock/news/217943/will-the-fed-raise-rates-in-june-outlook-uncertain>

^{vii} <https://www.zacks.com/stock/news/217943/will-the-fed-raise-rates-in-june-outlook-uncertain>

^{viii} <http://www.foxbusiness.com/markets/2016/05/17/april-housing-starts-jump-6-6.html>

^{ix} <http://www.federalreserve.gov/releases/g17/current/>

^x <http://www.foxbusiness.com/markets/2016/05/19/weekly-jobless-claims-fall-by-16000.html>

^{xi} <http://www.foxbusiness.com/markets/2016/05/20/april-existing-home-sales-rise-more-than-expected.html>

^{xii} <http://www.realsimple.com/food-recipes/browse-all-recipes/ricotta-meatballs>

^{xiii} <https://www.irs.gov/uac/military-members-get-free-tax-help>

^{xiv} <http://www.golftipsmag.com/instruction/prospective/left-to-compress.html#.U0Fkya1dWHw>

^{xv} <http://www.aarp.org/health/drugs-supplements/info-2016/counterfeit-prescription-drugs-rx.html?intcmp=-FLXSLDR-SLIDE-MAIN#slide1>

^{xvi} <http://www.consumerreports.org/cro/news/2012/06/when-it-s-hot-help-your-refrigerator-keep-its-cool/index.htm>