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Stocks Close Mixed on GDP Disappointment

Weekly Update – August 1, 2016

Stocks broke their four-week winning streak, closing mixed after the release of a surprisingly low estimate of second-quarter economic growth. For the week, the S&P 500 lost 0.07%, the Dow fell 0.75%, the NASDAQ grew 1.22%, and the MSCI EAFE added 2.36%.ⁱ

The preliminary estimate of Q2 Gross Domestic Product (GDP) growth showed that the economy grew a paltry 1.2% last quarter versus the 2.6% growth expected.ⁱⁱ Investors were understandably disappointed as they had hoped for a resurgence after a slow first quarter. Professional economists were also surprised. The New York Fed had forecasted GDP growth of 2.1% and the Atlanta Fed had predicted 2.3% growth.ⁱⁱⁱ Why the surprise?

Digging deeper into the data, we find that the disappointment came from an unexpected fall in business inventories. On the positive side, the drop may boost future economic growth as businesses rebuild their stockpiles. Consumer spending was strong, growing 4.2% over the previous 12 months, and accounting for nearly all the GDP growth we saw.^{iv}

So, though the headline number was a letdown, the underlying trends in consumer spending, labor market growth, and higher savings rates could set up a banner third and fourth quarter.

During last week's Federal Open Market Committee meeting, the Federal Reserve's monetary policy makers voted to hold rates steady, surprising no one. Citing recent economic data, the central bank said that "near-term risks to the economic outlook have diminished," setting the stage for the next rate hike.^v

Will rates increase in September? December? Or will the Fed wait until 2017? We don't know. Wall Street bets on future rate hikes suggest that most traders don't think the Fed will move until December if they don't wait until 2017.^{vi}

On the positive side, the Fed seems confident enough in economic growth to cut back on stimulus. On the negative side, speculation around the timing of future rate hikes will continue to be a major market theme this year and may stoke additional volatility.

This week, investors will be watching Friday's July labor market release and digesting more corporate earnings reports. We'll keep you informed.

ECONOMIC CALENDAR:

Monday: PMI Manufacturing Index, ISM Manufacturing Index, Construction Spending

Tuesday: Motor Vehicle Sales, Personal Income and Outlays

Wednesday: ADP Employment Report, ISM Non-Manufacturing Index, EIA Petroleum Status Report

Thursday: Jobless Claims, Factory Orders

Friday: Employment Situation, International Trade

Data as of 7/29/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	-0.07%	6.34%	3.08%	13.64%	7.00%
DOW	-0.75%	5.78%	3.84%	10.36%	6.43%
NASDAQ	1.22%	3.09%	0.99%	17.46%	14.65%
U.S. Corporate Bond Index	0.54%	8.80%	8.81%	5.71%	8.00%
International	2.36%	-1.58%	-10.14%	0.11%	-0.85%
Data as of 7/29/2016	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.19%	0.38%	0.50%	1.03%	1.46%

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:

Weekly jobless claims rise. The number of Americans filing claims for new unemployment benefits rose by 14,000, but the underlying trend still shows strength in the labor market.^{vii}

Consumer sentiment drops in July. A measure of how consumers feel about the U.S. economy slipped as worries about the Brexit and the presidential election weighed on Americans.^{viii}

June new home sales surge. Sales of new single-family homes rose to the highest levels in nearly 8-1/2 years. Sales were up 25.4% over June 2015, indicating that the housing market may be gaining momentum.^{ix}

Durable goods plunge in June. Orders for long-lasting manufactured goods dropped, indicating weak overseas demand is affecting U.S. factories. Economists had predicted a 1.4% decline over June, but orders for goods like aircraft, appliances, and machinery actually fell 4.0%.^x

QUOTE OF THE WEEK

"Eighty percent of success is showing up."

—Woody Allen



Sweet Berry Yogurt Twist Pops



These creamy pops are perfect for a summer evening!

Makes 6 pops

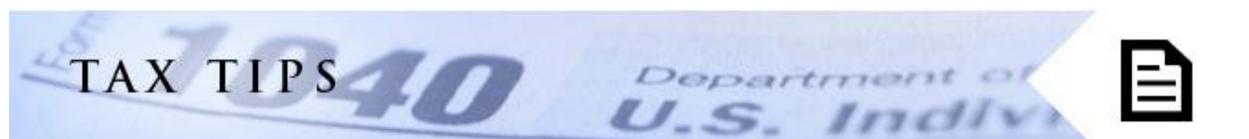
Ingredients:

1 pound of fresh or frozen blueberries, blackberries, or other ripe berry, rinsed with stems removed
1/4 cup granulated white sugar
2 6-ounce cups custard-style or Greek lemon, honey, or vanilla yogurt
1/2 cup whole milk

Directions:

1. In a medium bowl, mix the berries with sugar, crushing them slightly with the back of a spoon. Set aside for 30 minutes to macerate.
2. Whisk together the milk and yogurt until smooth and creamy.
3. Set aside 1/3 of the berry mixture. Puree the rest in a blender until smooth. Mix in the reserved berries.
4. Using small paper cups or popsicle molds, alternate layers of yogurt and berry mixture, stirring a toothpick at the end to create a swirl effect. Insert popsicle sticks or plastic knives and cover. Freeze until firm for about three hours or overnight.

Recipe adapted from Maureen Callahan | RealSimple.com^{xi}



Tax Tips for Vacation Rentals

The IRS generally requires that you report all rental income on your tax return. However, if you only occasionally rent out a property for short periods of time and use it as a home for the rest of the year, you may not have to report the income. Here's what the IRS says about vacation homes:

- A vacation property is defined as “a house, apartment, condominium, mobile home, boat, or similar property.”
- If you rent out a home for less than 15 days per year and use it as a home the rest of the time, you may not need to report the income.
- If your house is considered a rental property, you may deduct rental expenses related to the property from your taxes as long as they do not exceed the income received. If you also use the house as a home, you must segregate expenses accrued during the personal use period.
- Personal use may include use by family, friends, or anyone who pays you less than market rate in rent.

For more information about tax issues around rental or vacation homes, consult a tax professional in your area or see IRS Publication 505, Publication 527, “Residential Rental Property (Including Rental of Vacation Homes).”

Tip courtesy of IRS.gov^{xii}



In The Rough? Think Wedge.

When you find yourself in the deep rough, it's hard to get out using longer irons or fairway woods. Why? Because longer clubs need a shallow angle of attack, causing you to put too much rough between the clubhead and the ball. The angle makes it very hard to get the ball airborne and robs the shot of power and distance. Next time you find yourself in the rough, reach for a high-lofted iron or your wedge, which uses a short, steep angle, allowing you to pitch the ball up and out to a comfortable distance.

Tip courtesy of Bobby Hinds, PGA | Golf Tips Mag^{xiii}



Live “Superlong” With These Longevity Tips

Geriatrician Harvey Jay Cohen, M.D. says that staying healthy as you age is strongly influenced by your attitude and a healthy lifestyle. Here are some tips for tilting the longevity odds in your favor:

- **Laugh often:** Studies show that laughter reduces stress and improves your immune system function.
- **Sleep late:** Research suggests that adults 50 and older who get six to nine hours of sleep think better and have stronger brain function.
- **Lose the middle:** The circumference of your waist is a big predictor of current and future health. Dropping some extra weight may help you live a longer, healthier life.

Tip courtesy of AARP^{xiv}



Consider Switching to Recyclable Batteries

Switching to rechargeable nickel-metal hydride (NiMH) batteries is a great way to reduce the amount of toxic waste your household produces. AA and AAA NiMH batteries have longer lifespans and better performance than alkaline rechargeables, making them a greener choice. Depending on where you live, your community may offer battery and gadget collection centers that make it easy to recycle batteries when they're no longer usable. Visit www.call2recycle.org to find out about battery recycling centers in your area.

Tip courtesy of Green Living Tips^{xv}

Share the Wealth of Knowledge!

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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://finance.yahoo.com/quote/%5EGSPC/history?period1=1469160000&period2=1469764800&interval=1d&filter=history&frequency=1d>

<http://finance.yahoo.com/quote/%5EDJI/history?period1=1469160000&period2=1469764800&interval=1d&filter=history&frequency=1d>

<http://finance.yahoo.com/quote/%5EIXIC/history?period1=1469160000&period2=1469764800&interval=1d&filter=history&frequency=1d>

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

ⁱⁱ <http://www.cnbc.com/2016/07/29/us-advance-q2-2016-gross-domestic-product.html>

ⁱⁱⁱ https://www.newyorkfed.org/medialibrary/media/research/policy/nowcast/nowcast_2016_0729.pdf?la=en

<https://www.frbatlanta.org/-/media/Documents/cqer/researchcq/gdpnow/RealGDPTackingSlides.pdf>

^{iv} <http://www.cnbc.com/2016/07/29/us-advance-q2-2016-gross-domestic-product.html>

^v <http://www.bloomberg.com/news/articles/2016-07-27/fed-begins-crawl-toward-rate-hike-as-near-term-risks-diminish>

^{vi} <http://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html> [Accessed July 31, 2016]

^{vii} <http://www.foxbusiness.com/markets/2016/07/28/weekly-jobless-claims-rise-by-14000.html>

^{viii} <http://www.foxbusiness.com/markets/2016/07/29/consumer-sentiment-slips-in-july.html>

^{ix} <http://www.foxbusiness.com/markets/2016/07/26/june-new-home-sales-jump-3-5.html>

^x <http://www.foxbusiness.com/markets/2016/07/27/june-durable-goods-orders-plunge.html>

^{xi} <http://www.realsimple.com/food-recipes/browse-all-recipes/lemon-blueberry-twist-pops-1000001073869/index.html>

^{xii} <http://www.irs.gov/taxtopics/tc415.html>

^{xiii} <http://www.golftipsmag.com/instruction/iron-play/lessons/rough-and-tough-shots-best-of-2014.html#.U-Z8PIBdVsl>

^{xiv} <http://www.aarp.org/health/healthy-living/info-2014/longevity-tips-aging-well.html>

^{xv} <http://www.greenlivingtips.com/articles/disposable-vs-rechargeable-batteries.html>