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## Stocks Drop on Interest Rate Worries

Weekly Update – September 12, 2016

After trading flat for most of the week, stocks broadly sank Friday on fears of a future rate hike. For the week, the S&P 500 lost 2.39%, the Dow fell 2.20%, the NASDAQ dropped 2.36%, and the MSCI EAFE lost 0.16%.<sup>i</sup>

Monetary policy was at the forefront of investors' minds last week as they continue to calculate the odds of an interest rate increase ahead of the September Federal Reserve's Open Market Committee (FOMC) meeting.

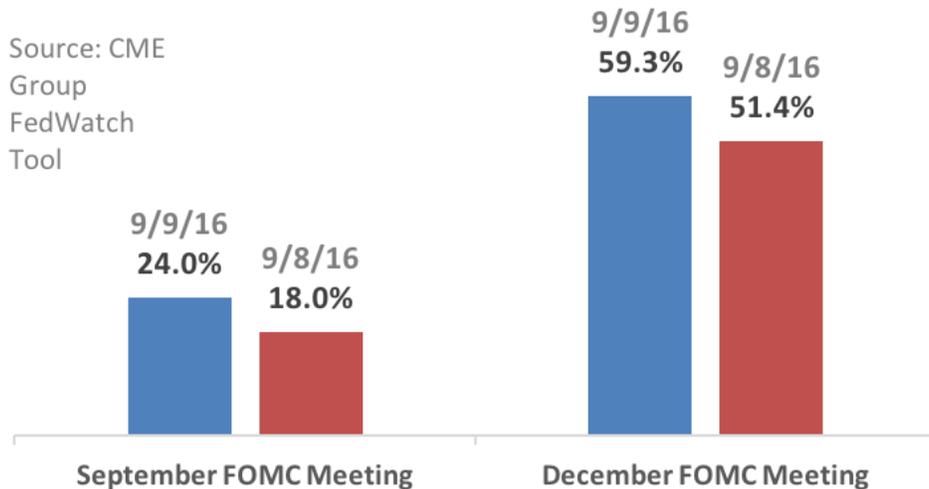
The European Central Bank (ECB) declined to increase its stimulus program, voting to stand pat on interest rates and current bond-buying activity. The decision wasn't a total surprise as the Eurozone economy has proved resilient after Britain voted to exit the EU. However, the ECB did confirm that it will consider further quantitative easing in 2017 if conditions worsen.<sup>ii</sup> No exit date for Britain has been announced, though the new prime minister has indicated it will not begin before next year.<sup>iii</sup>

On our side of the Atlantic, surprise comments by a voting member of the Fed increased speculation that a rate hike may come this month.<sup>iv</sup> When markets are quiet, even rumors can be enough to spark a selloff. In previous weeks, Fed officials have ramped up hawkish rhetoric, suggesting sentiment that the Fed is moving toward a rate hike. Even reliably dovish officials, who have historically maintained a cautious stance, are showing interest in raising rates again.<sup>v</sup>

We have now entered the quiet period before the FOMC meets September 20th, meaning we won't get more statements from Fed officials before they vote on monetary policy. The information blackout will give investors plenty of spare time to digest previous statements and come to grips with the idea that the Fed is serious about raising rates this year.

All the speculation around the Fed's increasing assertiveness about rates had a palpable effect on markets, which may be what the Fed wants to achieve. The chart below shows Wall Street trading probabilities of higher interest rates in coming months.

## Wall Street Odds of Higher Interest Rates



On Thursday, traders put the odds of a September hike at just 18.0%. By the close of trading on Friday, the odds had surged to 24.0%. The odds of a December hike had been about even; now, traders seem to believe the Fed will raise rates again this year.<sup>vi</sup>

Is last week's pullback a minor blip? We can't know for certain, but investors should prepare for a bumpy ride this fall.

The week ahead is packed with economic data, including critical reports on business inventories. Positive data could contrarily cause further selling if investors believe it could spur the Fed to act. Negative data might likewise be greeted with cheers. As we move to a Fed vote and uncertainty around the November election peaks, markets are likely to remain volatile and perhaps even move into a more prolonged selloff. It's too soon to know. As always, we'll keep you informed.

### **ECONOMIC CALENDAR:**

**Tuesday:** Treasury Budget

**Wednesday:** Import and Export Prices, EIA Petroleum Status Report

**Thursday:** Jobless Claims, PPI-FD, Retail Sales, Philadelphia Fed Business Outlook Survey, Empire State Manufacturing Survey, Industrial Production, Business Inventories

**Friday:** Consumer Price Index, Consumer Sentiment, Treasury International Capital

Data as of 9/9/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	-2.39%	4.10%	9.57%	16.87%	6.38%
DOW	-2.20%	3.79%	11.27%	12.91%	5.88%
NASDAQ	-2.36%	2.37%	7.77%	21.54%	13.67%
U.S. Corporate Bond Index	-0.68%	7.97%	7.74%	5.13%	7.55%
International	-0.16%	-0.52%	-1.35%	3.96%	-0.83%
Data as of 9/9/2016	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.24%	0.51%	0.58%	1.23%	1.67%

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:

**Fed Beige Book shows wage gains restricted to skilled workers.** A key report released by the Federal Reserve showed that the economy grew modestly in July and August. However, data shows that most wage gains occurred only in skilled jobs where employers are struggling to find qualified workers.<sup>vii</sup>

**Weekly jobless claims drop.** The number of Americans filing new claims for unemployment benefits fell unexpectedly last week, marking the 79<sup>th</sup> straight week that claims remained below the key 300,000 level associated with a healthy labor market.<sup>viii</sup>

**Monthly job openings increased in July.** The number of available jobs, a data point closely watched by Federal Reserve economists, increased by 3.9% In addition, the hiring rate rose by 3.6%, pointing to a strong labor market.<sup>ix</sup>

**Gas prices slide after summer.** The summer driving season is over and falling gas prices might slip further this winter. Americans enjoyed the cheapest summer gas since 2004, and economists hope the “gas dividend” will boost spending this quarter.<sup>x</sup>

## QUOTE OF THE WEEK



*“The most common way people give up their power is by thinking they don’t have any.”*

*–Alice Walker*

### Peaches and Cream Tart



*Enjoy this take on peaches and cream at your next dinner party.*

#### **Ingredients: Serves 8**

Flour for your work surface  
1 refrigerated pie crust  
5 ripe peaches, washed and quartered  
1 tablespoon honey, warmed  
1 16-oz container of whole sour cream or crème fraîche  
4 Tablespoons powdered sugar  
2 Tablespoons sliced, blanched almonds

#### **Directions:**

1. Preheat your oven to 400° F. Sprinkle flour on your countertop or work surface.
2. Lay out the cold pie crust on the work surface and roll it evenly into a 12-inch circle. Gently place it over a 10-inch round pie or tart pan with a removable bottom and press into place. Press the dough over the edge of the pie pan to remove excess. Prick the dough all over with a fork and refrigerate for at least half an hour.
3. Remove the crust from the refrigerator and completely line with foil or parchment paper. Fill the crust with pie weights or dried beans. Place the pan on a baking sheet and slide into the oven. Bake for 15-18 minutes.
4. Remove the weights and the liner and return the crust to the oven. Bake for another five minutes. Set aside to cool, but keep the oven on.
5. Drizzle the peaches with honey and toss to coat thoroughly. Mix the cream and powdered sugar until thoroughly combined. Using a spatula, gently spread the cream over the cooled tart crust. Arrange the peaches in a single layer on top.
6. Bake for about 30 minutes; remove and sprinkle the almonds on top. Bake for another 15-20 minutes until the peaches are soft and the almonds are golden. If the crust begins to brown too quickly, cover the edges with foil and return to the oven.
7. Serve the tart warm or cold, with vanilla ice or whipped cream.



## Do You Know About the Taxpayer Advocate Service?

The Taxpayer Advocate Service (TAS) is an independent office within the IRS that acts as an ombudsman for taxpayer issues at the IRS. The TAS can help taxpayers whose problems are causing financial difficulty and who have tried to resolve issues through the normal channels. The TAS is open to all taxpayers, including businesses and foreign residents of the U.S., and services are always free.

The IRS has adopted a list of fundamental rights that all taxpayers should know:

### Taxpayer Bill of Rights

1. The Right to Be Informed.
2. The Right to Quality Service.
3. The Right to Pay No More than the Correct Amount of Tax.
4. The Right to Challenge the IRS's Position and Be Heard.
5. The Right to Appeal an IRS Decision in an Independent Forum.
6. The Right to Finality.
7. The Right to Privacy.
8. The Right to Confidentiality.
9. The Right to Retain Representation.
10. The Right to a Fair and Just Tax System.

The TAS has a Taxpayer Toolkit available at [TaxpayerAdvocate.irs.gov](http://TaxpayerAdvocate.irs.gov) that can help you understand how these rights may apply in specific situations. To contact the IRS Taxpayer Advocate Service, visit the office in your state or call toll-free at 1-877-777-4778.

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



## Introducing a New Golfer to the Sport

If you're a passionate golfer, it's natural to want to bring new people to the golf course. However, it's important to start slowly and respect a new player's interest and ability. Here are some tips for playing with someone new:

- Help them choose rental clubs that are the right size (and hopefully, not too beat up).
- Start simply by explaining the rules—leave the details and advanced strategies for future days on the course.
- Teach golf etiquette and help new players clean up after themselves on each hole.

- Make sure new golfers understand the course's dress code.
- Don't lean over new players as they get into their stance. Save helpful tips for after the shot.
- If your group is moving slowly, be polite and let other golfers play through.



### **A Cardiologist's Tips for a Healthy Life**

Noted cardiologist Dr. Dean Ornish has the following lifestyle tips for seniors aiming to improve overall health:

- Stop thinking of foods as good or bad and emphasize moderation. However, a low-fat, plant-based diet that is low in sugar has been shown to improve health.
- Add exercise to your day in small increments. Walk briskly for 30 minutes and take the stairs when you can.
- Make overall lifestyle changes. It's ok to take days off or to fall off the lifestyle wagon. What's important is that you make overall changes to your life.
- Use meditation to reduce stress and pursue inner peace.
- Cherish your family and friends and work on your relationships.

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



### **Save Energy, Save Your Clothes**

Washing your clothes in cold water not only will save you energy and lower your monthly bill, but it will also preserve fabric color and reduce wear, helping your clothes last longer. Here are some other laundry tips:

- Do full loads of laundry to reduce the amount of water used in each wash.
- Choose the right laundry cycle for each load. Delicate or lightly used clothing doesn't need as long a cycle as heavy or soiled items.
- Separate heavy and light items when drying. Lightweight items will dry more quickly, reducing energy usage.

Tip courtesy of The Alliance to Save Energy<sup>xiv</sup>

### ***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.

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Past performance does not guarantee future results.

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<sup>i</sup> <http://finance.yahoo.com/quote/%5EGSPC/history?period1=1472788800&period2=1473393600&interval=1d&filter=history&frequency=1d>

<http://finance.yahoo.com/quote/%5EDJI/history?period1=1472788800&period2=1473393600&interval=1d&filter=history&frequency=1d>

<http://finance.yahoo.com/quote/%5EIXIC/history?period1=1472788800&period2=1473393600&interval=1d&filter=history&frequency=1d>

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

<sup>ii</sup> <http://www.usatoday.com/story/money/markets/2016/09/08/ecb-rate-decision/89993000/>

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<sup>iii</sup> <http://www.bbc.com/news/uk-politics-32810887>

<sup>iv</sup> <http://www.cnbc.com/2016/09/09/surprise-lael-brainard-fed-speech-throws-stock-markets-for-a-loop.html>

<sup>v</sup> <http://www.cnbc.com/2016/09/09/surprise-lael-brainard-fed-speech-throws-stock-markets-for-a-loop.html>

<sup>vi</sup> <http://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html> [Data accessed September 9, 2016]

<sup>vii</sup> <http://www.foxbusiness.com/markets/2016/09/07/beige-book-wage-increases-restricted-to-highly-skilled-jobs.html>

<sup>viii</sup> <http://www.foxbusiness.com/markets/2016/09/08/weekly-jobless-claims-fall-by-4000.html>

<sup>ix</sup> <http://www.cnbc.com/2016/09/07/jolts-for-july-2016-reported-by-the-bureau-of-labor-statistics.html>

<sup>x</sup> <http://www.foxbusiness.com/features/2016/09/07/gas-prices-to-head-south-before-winter.html>

<sup>xi</sup> <http://www.realsimple.com/food-recipes/browse-all-recipes/peach-sour-cream-tart>

<sup>xii</sup> <http://www.irs.gov/uac/Newsroom/Ten-Things-to-Know-About-the-Taxpayer-Advocate-Service>

<sup>xiii</sup> <http://www.aarp.org/health/healthy-living/info-2014/dean-ornish-low-fat-diet.html>

<sup>xiv</sup> <https://www.ase.org/resources/efficient-laundry-wash-clothes-cold-water-save-energy>