



1300 NW Briarcliff Pkwy, Ste. 120  
Kansas City, MO 64150  
913.948.6770  
816.399.0787

## Stocks Surge on August Jobs Miss

Weekly Update – September 6, 2016

After losing steam the previous week, stocks rose last week as investors cheered a weak jobs report and the declining probability of a September interest rate increase by the Federal Reserve. For the week, the S&P 500 gained 0.50%, the Dow grew 0.52%, the NASDAQ added 0.59%, and the MSCI EAFE grew 0.44%.<sup>i</sup>

The August job report showed that the economy gained 151,000 new jobs instead of the 180,000 jobs predicted by economists.<sup>ii</sup> Since investors are keenly watching the odds of a rate hike ahead of the mid-September Federal Open Market Committee meeting, they treated the jobs miss as a win since it might reduce the chance of a rate hike this month.

However, investors might be cheering too early since there's still the possibility the Fed might act. The August employment report is notoriously unreliable due to the effects of seasonal labor, which often peaks in the summer. Since 2011, August job gains have undershot estimates by about 49,000 and have been revised upward by an average of 71,000 jobs over the following months.<sup>iii</sup>

If enough Fed economists see the August numbers as a seasonal aberration, they may decide on the strength of June/July numbers that the economy is strong enough to weather another rate hike. However, despite Fed Chair Janet Yellen's hawkish tone, some experts don't believe the Fed will act until December at the earliest.<sup>iv</sup>

There is also the November election to consider; historically, the Fed tends to choose the more cautious path when facing a close call.<sup>v</sup> One expert pegs the odds of a September hike at 55% and a December hike at 80%. Overall, Wall Street traders are less confident of a September hike, assigning just a one-in-four chance of a rate increase.<sup>vi</sup>

Digging deeper into the August numbers, we see that the headline unemployment rate remained at 4.9%, and a broader measure of unemployment, which also includes discouraged and underemployed workers, also remained unchanged at 9.7%.<sup>vii</sup> Wage growth also slowed; hourly wages rose just three cents, increasing just 2.4% over the previous 12 months.<sup>viii</sup>

Though overall wage gains are slow, different sectors show different stories. Employees in high-demand tech jobs saw their wages go up 4.3% over a year ago. Even relatively low-skilled workers in restaurants and hotels are experiencing year-over-year wage gains of 3.9%.<sup>ix</sup>

## Our View

All told, the August jobs report paints a mixed picture of the economy. New jobs are still being created at a respectable clip and represent a strong tailwind in the third quarter. However, the pace of jobs growth may be waning, which is a concern. Furthermore, the pace of wage growth is also slow and may represent a divide between the workers who are fully experiencing the benefits of an economy close to full employment, and those who are being left behind.

As attention focuses on the Fed's September meeting, we expect to see further volatility. However, the fact that the Fed is seriously contemplating a rate hike this fall suggests policymakers believe in the underlying strength of the economy. That's great news.

### ECONOMIC CALENDAR:

**Monday:** U.S. markets closed for Labor Day Holiday

**Tuesday:** ISM Non-Manufacturing Index

**Wednesday:** JOLTS, Beige Book

**Thursday:** Jobless Claims, EIA Petroleum Status Report

| Data as of 9/2/2016       | 1-Week | Since 1/1/16 | 1-Year | 5-Year | 10-Year |
|---------------------------|--------|--------------|--------|--------|---------|
| Standard & Poor's 500     | 0.50%  | 6.66%        | 11.86% | 17.14% | 6.63%   |
| DOW                       | 0.52%  | 6.12%        | 13.09% | 12.90% | 6.13%   |
| NASDAQ                    | 0.59%  | 4.84%        | 10.52% | 22.33% | 13.94%  |
| U.S. Corporate Bond Index | 0.22%  | 8.71%        | 8.96%  | 5.31%  | 7.66%   |
| International             | 0.44%  | -0.37%       | 1.19%  | 2.82%  | -1.00%  |
| Data as of 9/2/2016       | 1 mo.  | 6 mo.        | 1 yr.  | 5 yr.  | 10 yr.  |
| Treasury Yields (CMT)     | 0.25%  | 0.45%        | 0.59%  | 1.20%  | 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:

**Consumer confidence surges.** A measure of how confident Americans feel about the economy rose to its highest level in nearly a year, suggesting that consumer spending may support growth this quarter.<sup>x</sup>

**Auto sales remain brisk.** Sales of U.S. cars and trucks were still healthy in August, but lagging activity at Ford and GM made analysts worry that total volume is declining from its blistering 2015 pace.<sup>xi</sup>

**Factory orders up in July.** Orders to U.S. manufacturers rose to the highest level in nine months in July. However, much of the increase was due to volatile orders for aircraft, indicating the surge may be temporary.<sup>xii</sup>

**Mortgage applications up 2.8%.** Overall mortgage applications were up last week as interest rates remained stable. However, refinancing activity should be higher given rates near record lows.<sup>xiii</sup>

## QUOTE OF THE WEEK

*"If the world is cold, make it your business to build fires."*

– Horace Traubel

## RECIPE OF THE WEEK

### Easy Eggplant Parmesan



*Pair this hearty eggplant lasagna with a Caesar salad for a healthful weeknight meal.*

Serves 8

#### **Ingredients:**

- 4 tablespoons olive oil
- 2 large eggplants (about 3 pounds total), sliced lengthwise
- Kosher salt and black pepper
- 1-1/2 cups marinara pasta sauce
- 1 15-ounce container whole milk ricotta
- 2 teaspoons dried oregano
- 8 ounces fresh mozzarella, diced, or 8 ounces shredded mozzarella
- 1/2 cup grated Parmesan cheese (about 1-1/2 ounces)

## Directions:

1. Preheat your oven to 450° F. Place a pasta strainer or colander over the sink, layered with two sheets of paper towels. Spoon the ricotta into the strainer and allow to drain for at least 30 minutes. It should be crumbly and slightly moist when finished.
2. Coat two baking sheets with the olive oil and arrange the sliced eggplant into a single layer. Season with a pinch of salt and pepper and additional olive oil (if wanted).
3. Bake the eggplant for about 15 minutes, rotating the sheets halfway through. The eggplant is done when the slices are soft and browned around the edges. Set aside to cool slightly and lower the oven temperature to 400° F.
4. Mix together the ricotta, half of the mozzarella, oregano, and a pinch of salt and pepper.
5. In a 3-quart ceramic or glass baking dish, spoon enough marinara sauce to coat the bottom. Starting with eggplant slices, arrange alternating layers of eggplant, sauce, and ricotta mixture until all ingredients are exhausted. Top the final layer with sauce, the remaining mozzarella, and a final layer of Parmesan cheese.
6. Bake for about 20 to 25 minutes until the top is bubbling and browned. If the top is browning too quickly, tent with foil until done.

Recipe adapted from Dawn Perry | RealSimple.com<sup>xiv</sup>



### Tips for Identifying Fraudulent Phone Calls

Hundreds of thousands of Americans have received phony phone calls purporting to be from the IRS. Scammers may demand payment for taxes owed or lure the unwary with promises of unexpected tax refunds. Like most con artists, tax fraudsters actually want access to financial accounts and sensitive personal information. The IRS has noted an uptick in over-the-phone tax scams and has the following tips:

- Fraudsters may know a lot about you when they call and may be able to spoof your caller ID to show that they are calling from an official number.
- If you don't answer the phone, they may leave an urgent callback request.
- If you receive a call that you think might be from the IRS, take down the agent's information and call them back at the official IRS hotline: 1-800-829-1040.

Remember, the IRS will never:

- Call you without mailing an official notice first.
- Demand that you immediately pay your taxes over the phone.
- Take a debit or credit card number over the phone.
- Threaten to call law enforcement or immigration services to arrest you for failure to pay.

If you believe that you (or someone you know) have been the victim of tax fraud, you can report the incident to TIGTA at 1-800-366-4484 or at [www.tigta.gov](http://www.tigta.gov). You can also contact the Federal Trade

Commission at [FTC.gov](http://FTC.gov). Use their “FTC Complaint Assistant” to report the scam. Please add "IRS Telephone Scam" to the comments of your complaint.

If you are worried about owing money to the IRS, contact a qualified tax expert or call the IRS directly at 1-800-829-1040.

Tip courtesy of [IRS.gov](http://IRS.gov)<sup>xv</sup>



### **Fix Slices by Avoiding Flying Elbows**

If you're struggling with pulled shots or slices, a flying elbow may be the cause. A common mistake amateurs make is to let their right elbow float away from their body at the top of the backswing. If this sounds like you, imagine yourself as a waiter carrying a tray of dishes; at the top of your backswing, you need to keep your forearm in a vertical position to avoid spilling your dishes. Practice this technique to keep your elbow relaxed and in towards your body.

Tip courtesy of Al Wagner | [Golf Tips Mag](#)<sup>xvi</sup>



### **Ask Your Pharmacy About Old Prescriptions**

Getting rid of old and expired medications is often a hassle, but new regulations mean that pharmacies, clinics, and hospitals may be allowed to take back old drugs. It's a good idea to dispose of your old medications to avoid accidentally mixing up your prescriptions and to reduce the odds that high-value medications could be stolen.

Ask your local pharmacy about options to drop off or mail in your expired medications. If you are unable to find a clinic or pharmacy willing to take back old medications, contact your local police station to find out the date of the next drug take-back event.

Tip courtesy of [AARP](#)<sup>xvii</sup>



### **Avoid Contaminating Natural Areas**

The next time you go for a walk in a natural area, think about what pests and organisms you might be transporting home on the soles of your boots or shoes. Ecologists are concerned about the effects of invasive plants and diseases on delicate environments. To avoid contributing to the problem, The Nature Conservancy recommends:

- Picking off the seeds and detritus on the bottom of your shoes and boots before getting into the car.
- Cleaning your soles with a 10 percent bleach solution between hikes to kill off organisms.
- Carefully washing clothing and gear with hot soapy water to avoid contamination.
- Never bringing firewood from one area to another. Instead, purchase firewood where you camp.

Tip courtesy of The Nature Conservancy<sup>xviii</sup>

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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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<sup>i</sup> <http://finance.yahoo.com/quote/%5EGSPC/history?period1=1472187600&period2=1472792400&interval=1d&filter=history&frequency=1d>

<http://finance.yahoo.com/quote/%5EDJI/history?period1=1472187600&period2=1472792400&interval=1d&filter=history&frequency=1d>

<http://finance.yahoo.com/quote/%5EIXIC/history?period1=1472187600&period2=1472792400&interval=1d&filter=history&frequency=1d>

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

<sup>ii</sup> <http://www.marketwatch.com/story/us-creates-151000-jobs-in-august-unemployment-49-2016-09-02>

<sup>iii</sup> <http://www.cnbc.com/2016/09/02/watch-out-the-fed-could-still-hike-in-september.html>

<sup>iv</sup> <http://www.cnbc.com/2016/09/02/a-september-rate-hike-was-never-really-on-the-table-expert-says.html>

<sup>v</sup> <http://www.cnbc.com/2016/09/02/watch-out-the-fed-could-still-hike-in-september.html>

<sup>vi</sup> [http://www.morningstar.com/news/dow-jones/TDJNDN\\_201609025317/market-snapshot-stocks-bounce-after-weakerthanforecast-august-jobs-report.html](http://www.morningstar.com/news/dow-jones/TDJNDN_201609025317/market-snapshot-stocks-bounce-after-weakerthanforecast-august-jobs-report.html)

<sup>vii</sup> <http://www.cnbc.com/2016/09/02/jobs-number-whats-the-real-unemployment-rate.html>

<sup>viii</sup> <http://www.cnbc.com/2016/09/02/employment-and-wages-heres-why-you-may-not-have-gotten-a-raise-lately.html>

<sup>ix</sup> <http://www.cnbc.com/2016/09/02/employment-and-wages-heres-why-you-may-not-have-gotten-a-raise-lately.html>

<sup>x</sup> <http://www.foxbusiness.com/markets/2016/08/30/consumer-confidence-gains-ground-in-august.html>

<sup>xi</sup> <http://www.foxbusiness.com/markets/2016/09/01/ford-gm-sales-fall-chrysler-sales-rise.html>

<sup>xii</sup> <http://www.foxnews.com/us/2016/09/02/us-factory-orders-up-1-percent-in-july-best-in-months.html>

<sup>xiii</sup> <http://www.cnbc.com/2016/08/31/mortgage-applications-up-but-refinancing-applications-should-be-higher.html>

<sup>xiv</sup> <http://www.realsimple.com/food-recipes/browse-all-recipes/eggplant-rollatini-00100000075561/index.html>

<sup>xv</sup> <https://www.irs.gov/uac/newsroom/irs-repeats-warning-about-phone-scams>

<sup>xvi</sup> <http://www.golftipsmag.com/instruction/full-swing/quick-tips/dont-spill-the-dishes.html#.VBU2EGSSxt8>

<sup>xvii</sup> <http://blog.aarp.org/2014/09/11/pharmacies-may-soon-be-able-to-take-back-old-drugs/>

<sup>xviii</sup> <http://blog.nature.org/science/2014/05/21/fading-forests-invasive-species-emerald-ash-borer-economics-ecology/>