


Sun October 9, 2016	Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Crude Gold	Oil	
	18,240	2,154	5,292	1,237	1.74%	5.80%	\$1,259	\$50.15	

Investment Strategy Report

Stocks Stuck in a Trading Range While Volatility Lurks Under the Surface

Stocks hit an all time high in July and continued to move higher in August and early September. They achieved these gains with very little volatility, as stocks hit a streak of over 40 straight days with less than a 1% move. This almost record period of market quiet was broken on September 9th when US stocks plunged by 2.5%. It is not clear what sparked the sell-off, but with investors lulled into a sense of complacency, any concerning development could have awoken investors from their slumber to cause the panic selling.

Since then, we have seen 5 market moves of approximately 1% or more, as the market now seems capable of jumping higher or lower for the smallest of reasons. Thus far, the up days and down days have been balanced, keeping the market in a range and within 2 % of its recent highs. However, the sense is that at some point, we will see a breakout, and it is anyone's guess whether it will be to the upside or downside.

There appears to be a good case to be optimistic about the market's prospects. While economic growth for the first 3 quarters of the year has been subpar, the expectation is that we will see a pick up in the fourth quarter. To begin with, the comparison with the fourth quarter of 2015 will be getting a boost from advancing oil prices (for energy companies) and a weaker dollar (for exporting multi-nationals). The price of oil has surged in the last 2 weeks to its highest price since June. Not only will this help the struggling oil sector, but it is an indication of an increase in global economic growth.

The ISM manufacturing index rose in September to a reading of 51.5 vs. 49.4 in August. The ISM service sector index also rose nicely, to 57.1 in September vs. 51.4 in August. These reports are good news for the economy and may indicate that business spending, which has been a laggard in our economic recovery, may finally be beginning to pick up. The employment numbers also look good, as claims for unemployment insurance continue to be near all time lows and the number of new jobs created continues at a healthy average monthly rate.

The markets, though, will always remain vulnerable to what are called "black swan" events, threats to economic stability that can torpedo the financial markets. The latest threat comes from Germany's Deutsche Bank. Its stock price is down over 50% this year and it appears that it will be asking the German government for a bailout. Italy's banks also are not in good shape and the fear is that problems in the European financial system can have a contagion effect on the rest of the world. Up until now, we have been hearing that this is nothing like 2008 and that the world's banking system is in far better shape now vs. then. But investors looking for excuses to be scared, don't have to look far.

Of course, I still haven't addressed the one issue that is on most of your minds: the upcoming election. I don't think that it will have much of an effect on the stock market and don't plan on making any changes based on anticipating the outcome. I would say that an improving economy and solid 4th quarter earnings reports will have more of an effect.

IRA Withdrawals -For those of you 70 1/2 and older or if you have an inherited IRA, I will be contacting you shortly about making your required distributions for 2016.

Medicare Enrollment - For those of you on Medicare, you have from Oct. 15th to December 7th to choose your Medicare options for 2017. If you are at all unsure about what your best options are, please feel free to call me. While I am by no means an expert on this, I can help to some extent or steer you to someone who is an expert. *Jeff Feldman*