



October

October 2, 2017

By the numbers: Halloween

In the United States, holidays encourage consumers to spend on decorations, food, activities, and other items. With its emphasis on buying candy and costumes, the Halloween season coerces consumers to open their wallets to celebrate. Let us take a look at how Americans celebrate Halloween and how it impacts the economy.



\$86.13

The average amount that American will spend on Halloween-related items



\$9.1 billion

The anticipated amount that Americans will spend on Halloween-specific items



179 million

The total number of Americans planning to celebrate Halloween



\$3.4 billion

The anticipated amount that Americans will spend on costumes



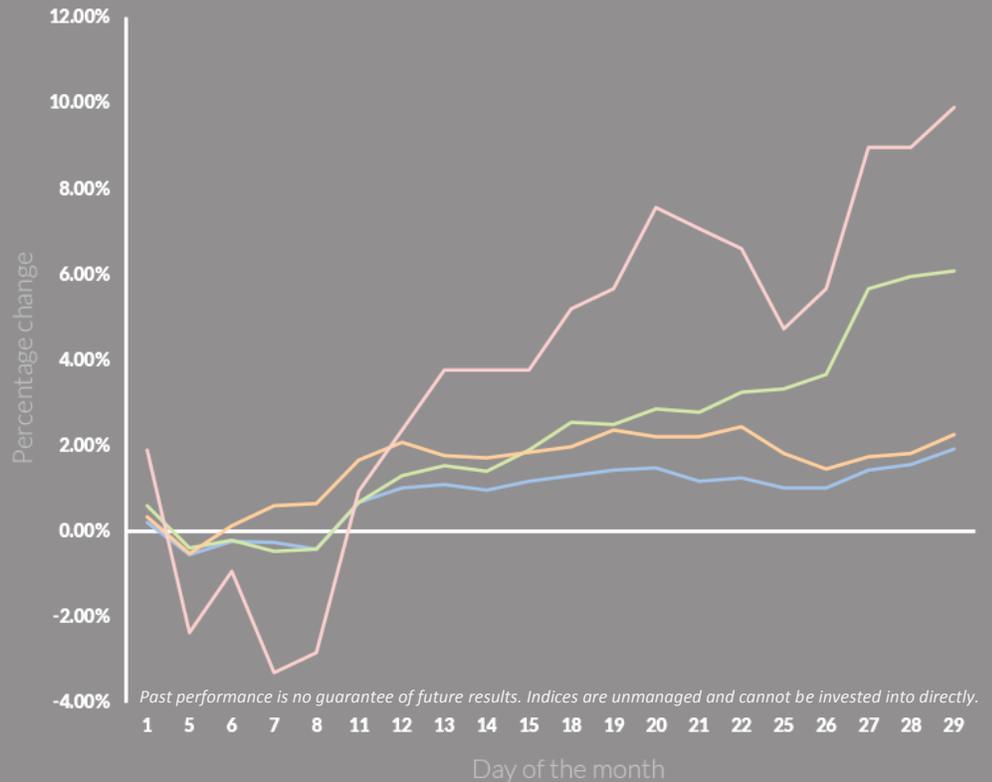
16 percent

Amount of Americans dressing up their pets

The market at a glance

September

 U.S. Large Cap (S&P 500)	2,519.36 (1.93%) ▲
 U.S. Mid/Small (Russell 2000)	1,490.86 (6.09%) ▲
 International Large (NYSE International 100)	5,643.00 (2.25%) ▲
 U.S. Treasuries (U.S. 10-year Treasury yield rate)	2.33 (9.91%) ▲



The market in action

- In one of the biggest data breaches of all time, Equifax, one of the three major credit reporting agencies in the United States, announced that more than 143 million individuals had their information compromised. The hack reportedly occurred from May through July of this year.
- The devastating hurricanes that impacted much of the Americas in August and September continue to impact millions of people. Estimates indicate that, between Hurricanes Irma and Harvey, total combined damage could exceed \$400 billion.
- Controlling stake in the storied music publication company Rolling Stone has been made available by Wenner Media LLC. According to Kreisky Media Consultancy, the stake could go for as much as \$80 million.
- Amazon is looking to expand its operations to a second headquarters office. Amazon estimates that, from 2010 through 2016, their main headquarters impacted Seattle's economy to the tune of roughly \$38 billion. Amazon expects to announce their decision sometime in 2018.
- Nordstrom is set to implement a line of stores that will have no merchandise for sale. Starting in early October at locations in California, these "Nordstrom Local" stores will have items that can be tried on, but not purchased. Instead, inventory will be gathered from other stores and from its own website. These stores will also have "bars" that offer juice and wine.
- In a promising sign for working-class families in the United States, middle-class income for Americans in 2016 rose to the highest it has ever been. In relation to this news, the poverty rate dropped to 12.7 percent, roughly returning to pre-Recession levels.

The economic impact of natural disasters

In August and September, Hurricanes Harvey and Irma ravaged various parts of the Western hemisphere. The devastation, from the loss of life to the damage to infrastructure, is nearly inconceivable. According to figures reported by The Guardian and The Los Angeles Times, these two hurricanes will end up costing approximately **\$400 billion** in combined damage.

Given these recent events, let us examine some of the costliest natural disasters in recent history and how they impacted economies.

2011 - Earthquake and tsunami in Japan

In a level of nearly unprecedented devastation, Tohoku, Japan experienced the fourth most powerful earthquake since 1900, which incited a tsunami. Thousands of people died, tens of thousands were evacuated, and hundreds of thousands were left without electricity or running water. The cost of the event was estimated to be \$235 billion, the costliest natural disaster in recorded history.

2005 - Hurricane Katrina

Currently the costliest natural disaster in the history of the United States, Hurricane Katrina saw far-reaching damage. In addition to the damage done to infrastructure in the American South, 19 percent of American oil production was impacted by the hurricane. Ultimately, some experts estimated that the total damage exceeded \$100 billion.

2008 - Sichuan earthquake

In one of the most devastating disasters to affect Asia, a large area of China was affected by a massive earthquake that was felt by several surrounding countries. Hundreds of thousands were either injured or killed as a result of the earthquake. Following the disaster, Chinese state media reported that the government would face a repair bill of roughly \$150 billion.

2012 - Hurricane Sandy

In 2012, the American Northeast was hit with a hurricane the likes of which the region had not seen in years – or maybe ever. Hundreds of thousands of homes and cars were damaged or destroyed and led to the deaths of more than 150 individuals. Ultimately, the damage caused by Hurricane Sandy is estimated to have exceeded \$65 billion, making it the second-costliest natural disaster in American history.

A note from George...

“There are three ingredients to the good life; learning, earning, and yearning.”

-Christopher Morley

And the Beat Goes On... So do the Markets!

Equity Overview

The third quarter of 2017 was a pleasure for those invested, with basically all regions, sectors, commodities, and bond categories seeing gains. Both the Standard & Poors' 500 (S&P 500) and the Dow Jones Industrial Average (DJIA) have risen for eight straight quarters – the last negative quarter was July through September 2015. In summary we saw better-than-expected second quarter earnings, continued improvement in the labor market, reduced market volatility and hopes for a business – friendly tax reform package to be passed by Congress. The S&P 500 rose 4% to fresh records in the quarter, but the index's average daily move during the period was 0.3%, the lowest since 1968.¹ The DJIA which mirrored the S&P 500 – rose more than 37% over the past eight quarters.² For the quarter the DJIA rose 4.8%. The tech – laden NASDAQ Composite which rose 5.8% for the quarter had its fifth straight quarterly gain. The small-cap Russell 2000, which has lagged its larger cap “brothers” enjoyed its sixth quarterly gain in a row and returned 5.3% for the quarter.³

Going forward, the fourth quarter, despite October's reputation, is historically the strongest of the year. Since 1950, the S&P 500 has gained an average of 3.9% with the typical “Santa Claus rally”, and is positive 80% of the time.⁴ Starting mid-October most analysts are expecting strong profit corporate results. The consensus seems to be a 6% rise in S&P 500 earnings per share – historically many companies have beaten analysts' estimates.⁵ Since 1928, there have been 29 Septembers in which the S&P 500 made a 12 – month high.⁶

Excepting the retail sector, foreign markets finish the quarter strong with the Dow Jones Global ex US index hitting its most recent high September 19 at 256.23. The index closed September at 254.12 off only 0.82% but up 19.13% year-to-date.⁷ The Stoxx Europe 600 climbed 3.8% in September and ended the

quarter 2.3% higher, as solid earnings growth and a buoyant global economy have drawn in investors.⁸

Key indexes in the Asia-Pacific region finished the quarter higher, with solid earnings and broadly positive risk sentiment outweighing the region's geopolitical concerns, especially the growing tensions between North Korea and the U.S.⁹ The Shanghai Composite Index gained 4.9% during the quarter – it's best since 2015 while Hong Kong's Hang Seng added 6.9% over the period.¹⁰

Stocks in emerging markets rose 6.6% in the third quarter, and for the year so far, 25%.¹¹ The rally reflects faster earnings growth, a weaker dollar and easy global monetary policies.

Regarding record highs and before we present the following table, consider the following so far for our domestic markets which are so closely tied to our trading partners overseas and in our own hemisphere... the S&P 500 closed the third quarter at a record for the 39th time this year; the NASDAQ Composite closed at a record for the 50th time in 2017; the Russell 2000 which had a weak start earlier this spring closed with records 21 times; finally the DJIA had set 41 record highs since year-end 2016.¹²

Consider the following table of selected equity indices:
Third Quarter Winner & Losers¹³ (selected)

Index	Return(best)
Bovespa(Brazil)	18.1%
IPSA(Chile)	12.4%
FTSE MIB(Italy)	10.3%
S&P500(information technology)	8.3%
Hang Seng(Hong Kong)	6.9%
S&P500(energy)	6.0%
BEL-20(Belgium)	5.9%

¹ [Wall Street Journal](#) S&P 500 Rises 4% in Quarter to a Record P.B10 9/30/17

² [www.marketwatch.com](#) What rose in the third quarter? Stocks, bonds – basically everything 9/30/17

³ [ibid](#)

⁴ [ibid](#)

⁵ [Barron's](#) Bears, Return to Your Caves P.9 10/2/17

⁶ [ibid](#)

⁷ [markets.wsj.com/overview](#) 10/2/17

⁸ [www.wsj.com/articles/investors-take-stock-us-third-quarter-ends](#) 10/2/17

⁹ [ibid](#)

¹⁰ [ibid](#)

¹¹ [www.wsj.com/as-emerging-markets-stocks-soar-investors-look-for-safety](#) 9/30/17

¹² [www.marketwatch](#) S&P 500, NASDAQ end at records 9/29/17

¹³ [Wall Street Journal](#) Third Quarter Winners & Losers P.B5 10/2/17

Index (continued from page 1)	Return(best)
NASDAQ Composite	5.8%
Russell 2000	5.3%
DJIA	4.9%
Shanghai Composite	4.9%
S&P500(financials)	4.8%
Euro Stoxx	4.3%
DAX(Germany)	4.1%
CAC-40(France)	4.1%
S&P500	4.0%
Dow Jones Transports	3.7%
S&P Mid Cap 400	2.8%

Index	Return(worst)
S&P500(consumer staples)	-2.0%
TelAviv25(Israel)	-1.1%
S&P/ASX200(Australia)	-0.7%
IBEX 35(Spain)	-0.6%
Kospi Composite(S.Korea)	0.1%
FTSE 100(U.K.)	0.8%
IPC All-Share Mexico	1.0%
S&P BSE Sensex(India)	1.2%
Nikkei Stock Average(Japan)	1.6%
Dow Jones Utility Average	2.4%

Commodity Overview

Commodity value have been on a roller coaster so far 2017 but with positive returns led by energy and metals. The S&P GSCI Index, which tracks 24 commodities, rose 7.5% for the third quarter, after falling 6.5% in the first half.¹⁴ Fuels used in machinery suffered from hurricane-related disruptions, therefore supply dropped and prices rose. The S&P GSCI Gas-oil Index rose nearly 25% for the quarter as inventories did not get restocked.¹⁵ The S&P GSCI Heating Oil Index climbed 23% for the quarter, while the Brent crude index rose 17%.¹⁶ Gold gained in the quarter about 4% benefitting from a weakening dollar.¹⁷ For the three quarters gold has returned 11.72%, while the more volatile silver index gained 4.62%.¹⁸

Fixed Income Overview

When considering popular measurements of equity valuation – whether its price/earnings, CAPE, dividend yield, price/book, price/sales etc., equities look expensive. The crucial factor missing from such calculations are interest rates, which remain near historic lows. The yield on the benchmark 10-year US Treasury note settled at 2.32% as of September 29, posting its first quarterly gain of the year. The T-note hit a low point of 2.06% earlier in the month before the Federal Reserve’s decision to move ahead with rate increases along with reports of consumer price increases and anticipation of strong economic growth with tax reform. As of month-end the 2-year T-note yield 1.47% while the 30-year Treasury bond closed the quarter with a yield of 2.85%.¹⁹

Looking Ahead

Michael Hartnett and Jared Woodward, strategists at Bank of America Merrill Lynch explained that the “best reason to be bearish is... there is no reason to be bearish”.²⁰ Hartnett anticipates a pullback during the fourth quarter instead of earlier this year delayed by positive factors including low inflation, big liquidity provided by central-bank buying, high earnings per share and the promise of a U.S. tax overhaul.²¹ Since the 2009 lows, U.S. stocks are up more than 260%, the second-longest “bull” market ever. Is the “bear” clock ticking?

Professor Robert Shiller’s CAPE index, which we wrote about earlier this year, stands at 30.71. CAPE is calculated by taking the S&P 500 and dividing it by the average of ten years’ worth of earnings. If the ratio is above the long-term average of around 16x, the stock market is considered expensive.²² The CAPE was equal to or higher than it is today in only 59 of the 1,640 months going back to

¹⁴ [Barron’s Commodity Prices Rebound in Third Quarter P. M11 10/2/17](#)

¹⁵ [ibid](#)

¹⁶ [ibid](#)

¹⁷ [ibid](#)

¹⁸ <http://markets.wsj.com/overview>

¹⁹ www.marketwatch.com Treasury yields see big September rise on hawkish Fed, Trump tax push 9/29/17

²⁰ www.marketwatch.com Here’s the best reason to be bearish 9/29/17

²¹ [ibid](#)

²² www.businessinsider.com You’re Not Listening to Robert Shiller 11/5/13

1881, or less than 3.6% of the time.²³ Both the market crash of 1929 and the dot-com crash of 2000 were anticipated by Professor Shiller's CAPE index.

JP Morgan analysts have stated that only about 10% of trading in the stock market today is driven by investors discriminately picking stocks as they search for fundamental value.²⁴ More and more investors are investing based on "themes" such as a broad or narrow market index, an algorithm within an exchange-traded fund – whether passive or active where portfolio adjustments done annually, semi-annually, quarterly or by some other set schedule. Much of the trading is automated, some without discretion by a manager.

Another warning flag is low volatility which may represent a lack of fear among investors of a market correction. Investors appear complacent as seen by the strong transition to both passive and momentum investing i.e. recent popularity in "FANG" type stock groups. FANG meaning Facebook, Apple, Amazon, Microsoft and Google's parent-company, Alphabet. This particular group of tech stocks has been responsible for about a third of the S&P 500's gains this year.²⁵ The combined market capitalization of the FANG's are approaching \$3 trillion, appreciating more than \$580 billion since the start of the year.²⁶ Are they worth it or are investors forgetting about corrections and "bear" markets, especially among the "high flyers"?

On a positive note, the Commerce Department in September reported its third and final reading of the Gross Domestic Product (GDP) for the second quarter. The result was 3.1% - higher than expected.²⁷ Exports grew at a 3.5% rate reflecting stronger growth around the globe.²⁸ Corporate profits, for the second quarter, were 7.4% higher than a year ago.²⁹ Median household incomes at \$59,039 are up an inflation-adjusted 3.2%, from a year earlier and up another 5.2% from 2015, according to the Census Bureau.³⁰ Productivity continued its modest progression advancing 1.5% in the nonfarm business sector in the second quarter while unit labor costs increased only 0.2%.³¹ Data on consumer sentiment, durable-goods order, and mortgage rates reported in August and early September all imply improving economic growth through the rest of 2017. Which way will the market go – we will see.

New Developments

First, the recent webinar on insurance and long-term health care is available for download. Please take advantage of this service we are providing for all our clients. Time to review your insurance policies? Will they be there when you need them? Interested in reducing your premium payments? Want to include long term care within your life policy? Call Genesis or Stephanie for details.

Secondly, save more and pay less in taxes. both TD Ameritrade and Schwab Institutional have made available Health Savings Accounts (HSA's) offering the same extensive level of investment flexibility as all other retirement accounts! HSAs allow employees to contribute money pretax and then withdraw it tax-free if they use it to pay for copays, prescriptions or almost any other health-care cost. The HSA itself does not need to be a part of your workplace. Call Stephanie or myself for details!

Our best wishes for a wonderful Fall season,



George Gumbiner



Five Star Wealth Manager since 2009, without exception
A+ rating with BBB Accredited Business 2002

²³ www.bloomberg.com What if High Stock Values Revert to Normal Levels 10/2/17

²⁴ yahoo.finance.com JP Morgan Most investors don't buy or sell stock for stock-specific fundamentals 6/15/17

²⁵ [ibid](#)

²⁶ Wall Street Journal The Biggest Risk Big Tech Faces P. B12 9/28/17

²⁷ Wall Street Journal Revision to GOP Shows Economic Output AT 3.1% P.A2 9/29/17

²⁸ [ibid](#)

²⁹ [ibid](#)

³⁰ Wall Street Journal New Record for Household Incomes P.A2 9/13/17

³¹ www.bls.gov Economic News Release 10/1/17