

Commentary

August 27, 2018

The Markets

Tick, Tock.

Not everybody loves meetings and even fewer enjoy reading the minutes, but investors make an exception with the Federal Reserve. This week the Fed published the minutes from its August 1 meeting. While no changes were made to interest rates, the minutes did provide insight to how the Fed sees the U.S. economy.

Key Insights:

- **The economy is strong.** The economy is poised for its best annual growth in a decade due to stimulation from tax cuts and federal spending. The current nine-year bull market is about to be the longest bull market in history and the stock market hit a new high last week. Inflation is back to the 2 percent range, after missing for several years, and the already tight labor market continues to tighten, reported *The Wall Street Journal*.

While the Fed remains concerned about the risks of inflation, it also is concerned about slowness in the housing market. Home building has declined due to a labor shortage and to higher cost in materials from tariffs, according to *The New York Times*.

- **When will the Fed stop raising rates?** The Fed is all but guaranteed to raise rates in September, with market odds at a 96 percent probability and a 60 percent probability for another hike in December. The Fed will continue its gradual interest rate increases for now as long as economic activity is consistently expanding at a sustainable rate. The minutes revealed the Fed governors will soon revise its policy stance from “accommodative to neutral,” reported *MarketWatch*.

- **What does the Fed think about tariffs?** The Fed is aware tariffs could derail their initial plan of steady rate hikes. Although concerned about President Trump’s tariffs, they are waiting for economic data to assess the damage. They did, however, say tariffs would have “adverse effects on business sentiment, investment spending, and employment. Moreover, wide-ranging tariff increases would also reduce the purchasing power of U.S. households,” reported *The New York Times*.

The Fed is content, for now, with their current policy stance of steady rate hikes, but are on edge as they wait to see how fiscal policy plays out in the data. The Fed is more likely to raise rates two more times this year given the strength of the economy.

Data as of 8/24/18	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.9%	7.5%	17.9%	14.9%	11.6%	8.3%
Dow Jones Global ex-US	1.5	-5.5	1.4	7.2	2.8	1.4
10-year Treasury Note (Yield Only)	2.8	NA	2.2	2.0	2.8	3.9
Gold (per ounce)	1.6	-7.6	-7.1	0.9	-2.8	3.8
Bloomberg Commodity Index	0.4	-5.1	0.2	-0.9	-8.5	-8.0
DJ Equity All REIT Total Return Index	-0.9	3.9	6.7	10.4	10.4	8.0

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

HOW WOULD YOU ASK FOR A RAISE? When *CNBC* asked business author Suzy Welch how someone should ask for a raise she explained, “The key... is an approach that includes research and emphasizes your achievements.” She recommended three basic steps:

1. **Time your request right.** Ask after a big win, a positive performance review, or when being asked to accept more responsibility.
2. **Prove your case.** Be prepared to explain why you deserve a raise, including your achievements and results.
3. **Establish a time frame for action.** If your boss isn’t prepared to provide an answer immediately, end your meeting by asking when you can expect a response.

This is sound advice.

When Willy Appelmann of *Fast Company* asked children at the Underhill Playground how they would

ask a boss for a raise, the kids believed the keys to success were good manners, hard work, baked goods, and physical appearance. Here are some of their recommendations:

- “Ask them politely and say: Can I please have a raise because I’ve been really working hard this week.”
- “Go up to your boss and say: Is it okay if I have some more money?”
- “Be confident and try your best.”
- “I would give them desserts, like pastry and cookies.”
- “Make sure you look weaker than your employer so they have power and they might feel merciful...”

If you recently received a raise or a bonus (or expect to), you may want to give some serious thought to how you will to use the additional income – spend it, save it, or do some of both – and how your choices will affect your taxes. If you’d like to discuss your options, give us a call.

Weekly Focus – Think About It

“The tax advisor had just read the story of Cinderella to his four-year-old daughter for the first time. The little girl was fascinated by the story, especially the part where the pumpkin turns into a golden coach. Suddenly she piped up, ‘Daddy, when the pumpkin turned into a golden coach, would that be classed as income or a long-term capital gain?’”

--*Unknown*

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- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in 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.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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