

Cornerstone Market Commentary

Week of October 8, 2018

The Markets

The stock market tends to be a leading economic indicator.

Last week offered some insight to economics and stock market behavior. The U.S. unemployment rate reached its lowest level since 1969 and wages moved higher, yet major U.S. stock indices lost value.

Why didn't stock markets move higher?

The answer is stock prices tend to be leading indicators. They reflect investors' expectations for the future. Last week, investors may have been thinking like this:

When unemployment is low, companies cannot always hire enough workers...
To hire more workers, companies raise wages...
Higher wages give workers more spendable income...
More spendable income produces higher demand for goods and services...
Higher demand for goods and services leads to higher prices...
Higher prices (inflation) cause the Federal Reserve to increase the Fed funds rate...
An increase in the Fed funds rate pushes interest rates higher...
Higher interest rates make borrowing more expensive...
Higher borrowing costs may slow business spending...
Slower business spending may cause profits to fall...
Falling profits may cause investors to sell shares...
When investors sell shares, stock prices may drop.

In general, "...while it usually takes at least 12 months for any increase or decrease in interest rates to be felt in a widespread economic way, the market's response to a change (or news of a potential change) is often more immediate," explained Mary Hall on *Investopedia.com*.

At the end of last week, 10-year Treasuries yielded 3.2 percent. Daniel Kruger of *The Wall Street Journal* reported, "U.S. government bond yields rose to their highest level in years Friday as investors reconsidered the strength of the U.S. economy while selling off stocks that could be hurt by higher borrowing costs."

One way to manage stock market volatility is to have a well-allocated and diversified portfolio.

Data as of 10/5/18	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-1.0%	7.9%	13.1%	13.2%	11.5%	10.6%
Dow Jones Global ex-U.S.	-2.8	-7.8	-3.7	5.2	1.5	3.7
10-year Treasury Note (Yield Only)	3.2	NA	2.4	2.1	2.6	3.4
Gold (per ounce)	1.4	-7.2	-5.6	1.8	-1.9	3.2
Bloomberg Commodity Index	2.0	-1.4	2.7	-0.7	-7.5	-5.4
DJ Equity All REIT Total Return Index	-2.9	-0.9	0.7	7.0	9.1	9.3

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.

WHAT DO YOU THINK? Athletes who grew up playing pick-up games of baseball, kickball, basketball, street hockey, and other sports with neighborhood kids may have had some advantages they didn't recognize.

A Brazilian research study, cited by *Freakonomics Radio's* show *Here's Why You're Not An Elite Athlete (Ep. 351)*, found children who played sports in unstructured environments showed more tactical creativity and tactical intelligence than children who played in structured environments.

In addition, playing multiple sports may be more beneficial than specializing in a single sport, at least when it comes to soccer.

A study by Manuel Hornig, Friedhelm Aust, and Arne Güllich reviewed the training of soccer players in Germany. *Practice and play in the development of German top-level professional football players*, which was published in the *European Journal Of Sports Science*, reported athletes who went on to play for the German national team played more pick-up sports as children, and played more types of sports in adolescence, than players who did not make the German team.

"The trick is not just to get lots of children playing, but also to let them develop creatively. In many countries they do so by teaching themselves...Such opportunities are disappearing in rich countries," reported *The Economist*.

Maybe we should rethink our tactics.

Weekly Focus – Think About It

"One man practicing sportsmanship is far better than 50 preaching it."

--Knut Rockne, University of Notre Dame football coach

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* 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 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 London afternoon gold price fix as reported by the London Bullion Market Association.

* The DJ 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 TR 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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