

## Commentary

October 17, 2016

### The Markets

‘Tis the season!

Third quarter earnings season, that is.

Every quarter, companies report earnings to let investors know how profitable the companies were during the quarter. When profits grow, a company’s share price may move higher. When profits decline, a company’s share price may move lower.

For five consecutive quarters, the Standard & Poor’s 500 Index (S&P 500) has been in an earnings recession – the earnings for the companies in the index have declined every quarter. Another earnings decline is expected for the third quarter. As of September 30, analysts estimated a -2.0 percent earnings decline for the third quarter, according to *FactSet*.

A negative estimate doesn’t necessarily mean all S&P 500 companies will do poorly. Certain sectors of the market have been performing a lot worse than others. Of the 11 sectors in the S&P 500, only three – Energy, Industrials, and Telecommunication Services – were expected to have negative earnings. For example, on September 30, estimates suggested the Energy sector would experience a year-over-year earnings decline of -67.2 percent, while Utilities would see earnings growth of +5.3 percent.

Only 7 percent of S&P 500 companies have shared third quarter earnings so far. Through last week, Energy sector earnings were weaker than expected (-72.5 percent) and Utilities earnings were stronger (+6.1 percent). *FactSet* detailed S&P 500 companies’ performance through Friday:

“...76 percent have reported actual EPS [earnings per share] above the mean EPS estimate, 3 percent have reported actual EPS equal to the mean EPS estimate, and 21 percent have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is above the 1-year (70 percent) average and above the 5-year (67 percent) average.”

Fourth quarter offers a brighter earnings outlook. S&P 500 companies are expected to see profits increase. Analysts’ current estimates suggest earnings will be up 5.3 percent during the period.

Data as of 10/14/16	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-1.0%	4.4%	7.0%	7.6%	11.7%	4.5%
Dow Jones Global ex-U.S.	-1.4	1.9	-0.5	-2.5	2.3	-0.5
10-year Treasury Note (Yield Only)	1.8	NA	2.0	2.7	2.2	4.8
Gold (per ounce)	-0.6	17.8	6.6	-0.9	-5.7	7.7
Bloomberg Commodity Index	0.8	9.9	-4.2	-12.4	-10.2	-6.4
DJ Equity All REIT Total Return Index	1.4	8.2	12.3	11.5	14.0	5.5

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](http://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.

**MAYBE MORE AMERICANS SHOULD STUDY COMMUNICATIONS.** Parents aren’t all that comfortable talking with their children about certain topics. *The T. Rowe Price 2016 Parents, Kids & Money Survey* found that sex and death are at the top of the list, followed closely by family finances. That’s right: family finances. Parents are more comfortable talking about terrorism, drugs, and bullying than they are talking about money!

A shortage of conversation may be at the root of some financial misunderstandings. For instance, when it comes to paying for college, 62 percent of children (ages 8 to 14) expect their parents to cover the entire cost of any college the child chooses. Yet, just 12 percent of parents said they would be able to pay the full cost of college. In addition, 67 percent of children said their parents are setting money aside so they can attend college. However, only 58 percent of parents reported they are saving money to pay for their children’s college.

The disconnect between children’s expectations and parents’ reality may explain why 16 percent of parent respondents said they had used retirement savings to pay for college expenses and 11 percent expect to do so.

Remarkably, college isn't the only non-retirement expense where parents have spent their retirement savings. Funds earmarked for retirement have been used to pay for vacations (17 percent), holidays (15 percent), day-to-day expenses (13 percent), and weddings (8 percent).

Communication is critical. If you haven't talked with your children about money, it may be a good time to start. There are a lot of resources available to help you. Give your financial professional a call for advice in this area of your portfolio.

Additionally, if you have been using retirement assets for other purposes, it may be time to implement and adhere to a financial plan. Doing so may help you arrive at retirement with enough money to live comfortably.

### **Weekly Focus – Think About It**

“Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it.”

--Warren Buffett, CEO of Berkshire Hathaway

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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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