RAI WEALTH

Commentary

October 3, 2016

The Markets

Markets were relatively calm during the third quarter of 2016, yet they delivered some attractive returns overall.

In the United States, all three major U.S. indices posted record highs twice during a single 7-day period in August, reported *CNBC.com*. The Standard & Poor's 500 Index (S&P 500) experienced a 51-day streak without at least a 1 percent decline. The index returned 3.3 percent in the third quarter.

Investors were fairly complacent until comments by Federal Reserve officials raised awareness the Fed might raise rates during 2016, possibly as early as September. The S&P 500 lost 2.5 percent and the VIX, known as the market's fear gauge, rose 40 percent in a single day. The upheaval was short-lived and U.S. stocks rebounded quickly.

World markets were moved higher after the Fed opted to maintain its current policy. When the European Central Bank did the same – choosing not to implement further stimulus measures – markets moved lower. Markets were also less than enthused with the plans put forth by the Bank of Japan (BOJ). The central bank will attempt to control the yield curve by keeping 10-year Japanese government bonds at zero percent.

The BOJ's goal is to push inflation to 2 percent, reported Reuters. However, some analysts believe the new policy may be less accommodative than the old one. Experts cited by *Financial Times* said, "On the face of it the BOJ has arguably, by setting the [Japanese Government Bond] curve at its current level, just announced a modest tightening in monetary conditions relative to where they were in the summer."

Speculation about a September rate hike caused many emerging markets, which have been top-performers throughout the year, to give back some gains late in the quarter. When the U.S. central bank pushes rates higher, emerging market assets become relatively less attractive to investors seeking yield. In addition, a rate hike tends to strengthen the U.S. dollar, inflating the value of dollar-denominated debt held by emerging countries and potentially slowing economic growth.

Brazil has been a top performer during 2016, despite recession and political upheaval. President Dilma Rousseff was impeached in September. Her successor, Michel Temer plans to enact fiscal reforms he hopes will bring about a mild economic recovery by 2017. Director of Latin America Strategy for Templeton Emerging Markets Group Gustavo Stenzel explained, "We believe Brazil offers a salient example of how political change can accelerate a turnaround in an economy and stock market."

Worries about China's economic stability receded during the quarter, Reuters explained:

"Recent economic data has shown signs of recovery in China's economy. Industrial sector profits jumped 20 percent in August, the best showing in three years, while a Reuters poll showed manufacturing sector activity likely expanded modestly for a second straight month in September. But many investors remain skeptical about the sustainability of a recovery that they believe has depended on government stimulus."

At the end of the quarter, emerging markets moved higher after OPEC announced a preliminary agreement to limit production. It was the first production cut in eight years. The agreement boosted oil and energy stocks in countries around the world.

The fourth quarter of 2016 may be a bumpy one. The U.S. election has the potential to cause some upheaval, as does a rate hike by the Federal Reserve.

Data as of 9/30/16	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.2%	6.1%	12.9%	8.8%	13.9%	5.0%
Dow Jones Global ex-U.S.	-0.9	3.8	7.4	-1.5	3.9	-0.2
10-year Treasury Note (Yield Only)	1.6	NA	2.1	2.6	1.9	4.6
Gold (per ounce)	-1.2	24.5	18.7	-0.1	-4.0	8.2
Bloomberg Commodity Index	1.2	8.6	-2.8	-12.4	-9.5	-6.0
DJ Equity All REIT Total Return Index	-1.7	12.5	21.2	13.9	15.9	6.4

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.

LAUGH THEN THINK – HARDER. The Ig® Nobel Prizes were awarded last week. The prizes celebrate some of the most imaginative, unusual, and peculiar scientific achievements of the year. For 2016, the winners included:

• **Economics:** Journalism and marketing professors from New Zealand and Britain for their work in marketing theory. The winning paper was entitled, "The Brand Personality of Rocks: A Critical Evaluation of a Brand Personality Scale."

• **Physics:** A slew of Hungarian, Spanish, Swedish, and Swiss researchers for dual discoveries. They explored and confirmed the reasons that white-haired horses are the most horsefly-proof, as well as the reasons dragonflies are fatally attracted to black tombstones.

• **Chemistry:** A certain German automobile manufacturer for "…solving the problem of excessive automobile pollution emissions by automatically, electromechanically producing fewer emissions whenever the cars are being tested."

• **Medicine:** German researchers who authored a paper titled, "Itch Relief by Mirror Scratching. A Psychophysical Study." Apparently, anyone with an itch on the left side of the body can relieve it by looking into a mirror and scratching the right side of the body, and vice versa.

• **Biology:** A Brit who built prosthetic limb extensions with plastic hooves and wore a helmet to romp and butt heads with goats during the three days that he lived among them. His co-winner was another British Islander who lived in the wild as a badger, an otter, a deer, a fox, and a bird.

The winners' accomplishments were celebrated at Harvard University where winners "physically receive their prizes and a handshake from genuine, genuinely bemused Nobel laureates."

Weekly Focus – Think About It

"I have lived as a badger in a hole in a Welsh wood, as an otter in the rivers of Exmoor, an urban fox rummaging through the dustbins of London's East End, a red deer in the West Highlands of Scotland and on Exmoor, and, most hubristically, a swift, oscillating between Oxford and West Africa…Why I did this is not an unreasonable question. There are many answers. One is that I wanted to perceive landscapes more accurately. We have at least five senses. By and large we use only one of them – vision. That's a shame…I suspect it's responsible for lots of our uncertainty about the sort of creatures we are, our personal crises, and the frankly psychopathic way in which most of us treat the natural world."
--*Charles Foster, Ig Nobel Prize winner*

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* International debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards.
* These risks are often heightened for investments in emerging markets. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.
* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* The Standard & Poor's 500 (S&P 500) is an unmanaged index. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
* 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.
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

* Past performance does not guarantee future results. Investing involves risk, including loss of principal.
* You cannot invest directly in an index.
* Consult your financial professional before making any investment decision.
* Stock investing involves risk including loss of principal.

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