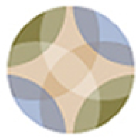

STRATEGIC Wealth Advisors

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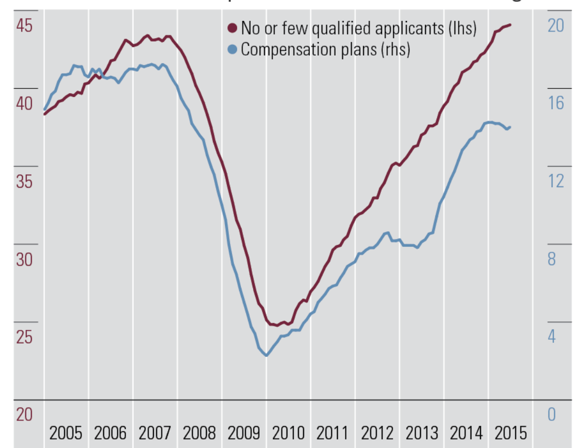
Small-Business Compensation Plans Prove to Be a Growing Dilemma

The NFIB Small Business Survey is a metric that tracks economic sentiment among small-business owners. The employment portion of the survey is a particularly valuable indicator as small businesses hire almost half of all U.S. employees. The chart below represents results from the August 2015 survey. The results are mixed. The chart shows that small-business owners have an increasingly harder time finding skilled labor, yet they are not quick to raise wages. The gap between the difficulty to hire and the plans for increased compensation is now the highest it's been in a few years, but the discrepancy between the two metrics can grow only so wide before converging back again. Given the current high demand for skilled and semi-skilled labor, it will be just a matter of time before workers realize that their leverage to demand higher pay is now the highest it's been in many years.

NFIB Small Business Survey, Percent of Small Business Reponses, 12-Month Average



Source: National Federation of Independent Business

This article contains certain forward-looking statements which involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially from any future results expressed or implied by those projected statements. Past performance does not guarantee future results.

What's Happening at SWA

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If you have an individual health insurance plan ("Plan") that is not ACA-compliant, it may be a grandfathered or grandmothered Plan. As a result you may need to find a new Plan or provider before the end of 2015. Grandmothered Plans are transitional Plans and are coming to an end. Each state has its own deadline. The State of Arizona is giving health insurance providers until the end of 2017 to cancel all ACA-noncompliant, grandmothered Plans. The provider may or may not replace them with ACA-compliant Plans. Not all Plan providers are waiting until the end of 2017 to cancel their Plans. Some have already canceled their Plans this year; others will cancel in 2016 and a few will wait until 2017. If you have such a Plan, check with your insurance provider to find out when they expect to cancel your Plan and if they expect to replace it with an ACA-compliant Plan. If you wait until December to enroll in a new Plan with a 1/1/2016 effective date, you may experience significant delays and long lines. Do not delay!

Monthly Market Commentary

August was a wild month, with powerful downward movements in most world equity markets early on, followed by equally impressive gains afterward. Investors feared that China's economic slowdown would drag down the rest of the world just as the Federal Reserve ended its emergency support. However, strong U.S. economic data combined with hope that the Fed will not increase rates in September set off an epic stock market rally.

GDP: The GDP report for the second quarter was revised up to a surprisingly strong 3.7% from just 2.3% in the previous report just one month ago. Although some GDP revision was expected, the quality and size of the upgrade were far better than anyone could have hoped for. Part of the strong increase in the second quarter was because of the abysmal first quarter, when the economy grew just 0.6%. Still, averaging the first and second quarters together, growth in the first half was over 2%, not bad for all the world drama.

Employment: On the surface, the August employment report was a modest disappointment to the market, with the U.S. economy adding 173,000 total nonfarm jobs versus earlier expectations of 215,000 jobs. However, readers should keep in mind that August is the lowest and most revised month in the employment data series. The total worker employment data was consistent with what everyone had been expecting and the average over the past six months.

There was other good news, too. The unemployment rate dropped surprisingly to 5.1% through a combination of job additions and a slightly smaller work force. The year-over-year, averaged data showed more of the same steady-state employment growth of just over 2% that has characterized most of this recovery. The steadiness has occurred despite large month-to-month swings that usually manage to cancel each other out.

Personal Income and Spending: Personal income and real disposable personal income grew 0.4% and 0.5%, respectively, exceeding more modest consumption growth of 0.3%. The battle between incomes and spending continues, with income growth exceeding spending growth for two months in a row after a period when consumption was winning out. Wage growth, due to a hiring binge late in 2014, is still running ahead of consumption, suggesting that there is more room for consumption to expand, especially now that oil prices are on their way back down. Historically, incomes and consumption have tended to move together, with consumption generally not as volatile as incomes. The close relationship and stable trend suggest a very consistent consumer who has not been spooked by world events.

Housing: This month's forward-looking housing reports support the thesis of a sharply improving housing market. The new-home sales report, in particular, offered some bullish clues indicating that the housing momentum is real and should continue in the months ahead. On the home price front, the news was also good, suggesting that the streak of large monthly increases appears to be moderating as June's data showed more modest monthly price growth. Housing has already provided a large boost to second-quarter GDP, and it looks like the third quarter is off to a good start, as well, providing hope that housing's substantial contribution to the GDP calculation could be sustained.

Monetary Policy: The Fed meeting on interest rate policy this week remains the market's focus. The raw economic data is not strong enough or weak enough for a firm conclusion, leaving everyone running around dissecting individual words in speeches and examining the circumstances of past rate increases. The Fed seemed to show a great willingness to raise rates, and then the situation in China worsened. It's tough to justify a rate increase in the face of financial turmoil. The impact of a small trial rate increase on the economy would probably be minimal, while the market impact of a change is likely to be high.

The Impact of Foreign-Currency Movements on Equity Portfolios

The U.S. dollar has staged an impressive rally over the past year. Although it has taken a bit of a breather recently, there are reasons to expect the dollar to remain strong, at least over the next year or two. The U.S. Federal Reserve is likely to raise rates in the next 12 months, which would be the first increase since 2006. The Bank of Japan and the European Central Bank, on the other hand, plan to maintain extremely low interest rates in their countries for the foreseeable future. These measures should support a stronger dollar, at least relative to the yen and euro.

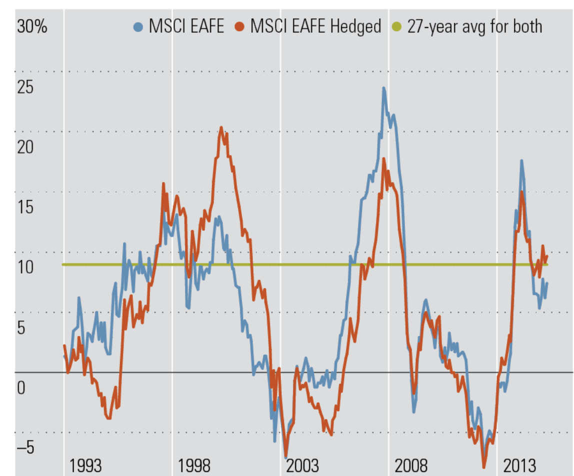
With the U.S. dollar's recent rise, many investors are taking a closer look at their portfolios' currency exposures. Most international-equity funds do not hedge their foreign-currency exposure, which means that their performance reflects both equity market performance and currency movements relative to the U.S. dollar. When the U.S. dollar rises against foreign currencies (or when foreign currencies weaken against the U.S. dollar), the performance of unhedged international-equity funds is negatively impacted by exchange-rate translation effects. The use of currency hedges in an international-equity fund, on the other hand, can mitigate negative, as well as positive, exchange-rate translation effects.

A 2015 Morningstar research paper examined the history of the U.S. dollar's performance over the past 40 years, discussed the impact of foreign-currency movements on international-equity portfolios, and evaluated the historical risk-adjusted returns of using either a currency-hedged or unhedged international-equity strategy within a diversified portfolio.

The analysis results suggest there is no significant difference in long-term risk-adjusted returns between portfolios that use a currency-hedged international-equity strategy and portfolios that use an unhedged international-equity strategy. As such, long-term investors may want to focus on choosing well-run, low -cost international-equity funds for their portfolios and may not be as concerned about whether or not the funds hedge their currency exposure.

Disclosure: The investment return and principal value of mutual funds will fluctuate and shares, when sold, may be worth more or less than their original cost. Mutual funds are sold by prospectus, which can be obtained from your financial professional or the company and which contains complete information, including investment objectives, risks, charges and expenses. Investors should be read the prospectus and consider this information carefully before investing or sending money.International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, liquidity risks, and differences in accounting and financial standards.

Annualized 5-Year Returns



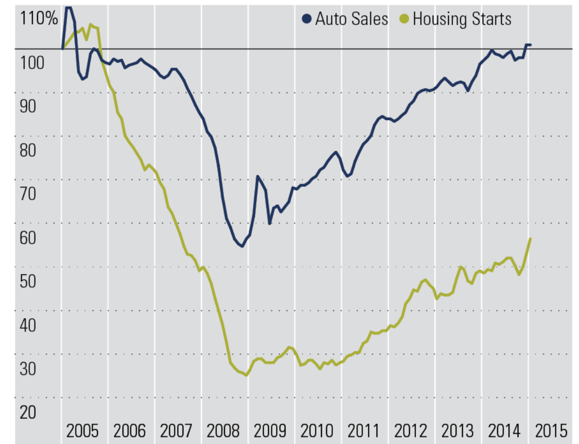
Source: "The Impact of Foreign-Currency Movements on Equity Portfolios," Morningstar research paper, June 2015.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

A Changing of the Guard for Auto, Housing Recoveries

Although the improvements in auto sales have greatly outstripped the housing recovery, that trend should flip in the coming years. The chart below is a tale of two recoveries: the recovery in the auto industry and the recovery in the housing industry. Both of these segments comprise about 3% of the GDP and have knock-on employment effects throughout the entire economy. The chart shows that both of these industries suffered from 2005-08--coming to a real crescendo when things collapsed in 2008. Since then, both segments have improved nicely. However, the auto industry has done far better. The auto industry is now at its previous high, meanwhile, the housing industry still has a long way to recover. Looking forward, Morningstar economists expect a changing of the guard where the housing industry continues to accelerate and the fully-recovered auto industry will continue to plateau.

Auto Sales and Housing Starts, Ratio from 2005 Level, 3-Month Average



Source: Bureau of Economic Analysis, Census Bureau, Morningstar.

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