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Look Back- 3rd Quarter 2016 & Money Market Funds

The third quarter 2016 saw reasonable gains for the stock market in what many have been calling the "most hated bull market ever." There seem to be several reasons for earning the dubious distinction of this title and I will discuss a few of them.

One of the reasons that we refer to this bull market as most hated is the view that the economy and corporate profits have been and remain lackluster. As we end the third quarter of 2016, stocks were mostly up for the quarter, and year-to-date, despite two significant downturns in the last 9 months. However, that is not the total story. A quick review of Investing 101 would tell us that the basis of a stock price is corporate profitability or the potential for future profitability. What we are seeing is that stock fundamentals are and have been deteriorating for many months. In a nutshell, stocks are overvalued. The benchmark S&P 500 is trading at 19.99 times its trailing price-to-earnings ratio. One year ago the trailing earnings number was 17.15 and ten years ago the trailing earnings number was 15.7. The trailing price-to-earnings (P/E) is calculated by taking the current stock price and dividing it by the trailing earnings per share (EPS) for the past twelve months. In this calculation, a smaller number is better. As we move thru earnings season, analysts expect earnings at S&P 500 companies to decline for a sixth consecutive quarter so there could be more bad news to come.

Another reason for the most hated bull market is the specter of rising interest rates from the Federal Reserve. If you have been reading my newsletter articles over the past few years, I have written many times about the current bull market that has been driven by stimulus packages from the Fed. The Fed stimulus ended in October 2014 but low interest rates did not. We have had a small rise in interest rates of .25% this year with the prospect of more on the horizon. Anytime investors think that another interest rate increase is imminent, the stock market seems to tumble. In this case, the path of least resistance for interest rates appears to be up. A rate increase will likely happen by year end and maybe again and again in 2017. Coupled with continued weak earnings, high P/E ratios and two less than desirable Presidential candidates, the stock market may be in for some interesting times.

Investors seem to be taking note of the issues and concerns discussed above. EPFR Global, a company that provides fund flows and asset allocation data to financial institutions around the world provided the following data: investors cashing out (outflows) of U.S. equity funds hit a three-month high in the week of September 22 and emerging-market stock funds recorded their first outflow during this quarter since June. According to the Investment Company Institute, U.S. stock funds experienced net selling outflow redemptions of -$68.31 billion in the third quarter 2016. International stock funds also saw an outflow of -$18.87 billion. In contrast, bond funds took in $65.02 billion for the third quarter. These redemptions are not good news for stock funds. They do not necessarily mean that markets will suddenly turn bad; however, the outflow of money from mutual funds is a yellow flag of caution.

Against that backdrop, it is time for a review of the actual results for the third quarter 2016. The Dow Jones Industrial Average gained +2.1% for the quarter. The S&P500 was slightly better than the DOW with a +3.3% quarterly return. The tech heavy NASDAQ Composite was the clear winner of the major averages with a +9.7% gain (Source: Wall Street Journal 10-03-2016). The average U.S Stock Mutual Fund came in with a respectable +4.8% return. Sector winners for the third quarter were Science & Technology with an average outsized gain of +11.4% and the Pacific region with a +9.1% gain. Not all funds had gains as Utility Funds lost -4.2% and Gold Oriented Funds were down -1.3% The Average Taxable Bond Fund gained +1.8% with the High Yield category leading the way at 4.7%. Long Term U.S. Government Bond Funds were down -0.2% (Source: Wall Street Journal 10-10-2016).

Before ending this October newsletter, I would like to briefly discuss money market accounts and money market funds. A money market account is a bank deposit account that pays interest. In the United States it is a type of instant access deposit subject to federal savings account regulations and in most cases will be covered under deposit insurance from an insurance corporation such as the Federal Deposit Insurance Corporation (FDIC). On the other hand, a money market fund is an open-ended mutual fund that invests in short-term debt securities such as U.S. treasury bills and commercial paper. Money market funds are regulated in the United States under the Investment Company Act of 1940.

The reason I offer these definitions is that there are new rules for money market funds (but not bank money market accounts) that became effective on October 14, 2016. Some money market funds may now charge liquidity fees and suspend redemptions for up to 10 days in a rolling 90-day period. They may also have floating rates of return. I do not use these types of money market funds in either your Ceros or Jefferson National accounts. I only use government money market funds. The government money markets used for your accounts do not have liquidity fees and cannot suspend redemption requests. They always maintain their net asset value of $1.00 after interest is paid out. If you have any further questions on money market funds, please give me a call.

In closing, below is the list of resources for caregivers that we began in the July newsletter. Take good care and enjoy what is left of our autumn splendor.

MICHIGAN RESOURCES (Continued from September Newsletter)

AARP RESOURCES FOR CAREGIVERS

AARP Caregiving Resource Center

One-stop shop for tips, tools and resources to use while caring for a loved one.

www.aarp.org/caregiving. For Spanish visit www.aarp.org/cuidar

AARP Caregiving Support Line

Connects you directly with an information specialist who can talk with you about services and support available in your community.

1-877-333-5885. For Spanish call 1-888-971-2013. Monday-Friday, 7 am-11pm EST

Advance Directive Forms

Free, downloadable state-specific advance directive forms and instructions.

www.aarp.org/advancedirectives.

AARP Caregiving App

Helps you manage your to-do list, calendar of appointments and support scheduling. You can download it at www.aarp.org/caregivingapp.

AARP Rx App

Helps you manage your loved one's medications. You can also use it to help manage your own medications. You can download it at www.aarp.org/rxapp.

I Heart Caregivers

An initiative to recognize family caregivers by providing them a place to share their stories and learn how they can help improve caregiver support in their state. Www.aaarp.org/iheartcaregivers.

Living Longer, Living Smarter

An educational series that helps caregivers and older adults create a plan for their future. Www.aarp.org/decide.

AARP Benefits Quick Link

Find public benefits that can help you pay for food, medicine, health care, utilities and more by using AARP Foundation's Benefits QuickLINK tools.

www.aarp.org/quicklink.

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