

## Weekly Market Commentary

### January 3, 2017

#### The Markets

What a difference a year makes! At the start of 2016, investors were rather pessimistic and risk averse, preferring bonds to stocks. By the end of the year, they were quite optimistic and preferred stocks to bonds. In between, markets traveled a bumpy road.

During January of last year, few investors imagined we would be where we are today. Markets started 2016 in a tailspin with investors worried about slower growth in China, U.S. economic strength, oil price declines, and the possibility of a global recession.

During the first 10 trading days of 2016, U.S. stock markets got off to their worst start for any year on record, reported *Financial Times*. The Standard & Poor's 500 (S&P 500) Index lost about \$1.4 trillion in value and every major sector in the index was in the red, except for utilities.

The sharp drop stunned investors, and many shifted assets from global stocks into bonds. In late January 2016, *CNN Money* reported:

“Investors yanked \$2.9 billion from U.S. stocks last week, marking the seventh week of outflows out of the past eight, according to Bank of America Merrill Lynch. Emerging markets, which have been in turmoil for months, experienced a 13th straight week of outflows of \$1.2 billion. Money is fleeing to safe haven government bonds.”\*\*

Investor sentiment was near its all-time low. On January 14, 2016, just 17.9 percent of participants in the *American Association of Individual Investors (AAII) Investor Sentiment Survey* said they were bullish. The all-time low is 12 percent and the long-term average for bullishness is 38.39 percent. Clearly, investors were not feeling optimistic about stock markets.

A specialist cited by *Time.com* discussed market performance and investor sentiment in the context of the *AAII Survey*:

“Historically...the S&P 500 has advanced 7.7 percent in the six months after reaching this level of bearishness. By contrast, stocks have historically gained only 2.7 percent in the six months following the most bullish readings among individual investors.”

As it turned out, the S&P 500 Index may have pushed the historic average higher during 2016. *Barron's* reported the Index finished the year up 9.5 percent and returned 12 percent when dividends were included.

Investors didn't enjoy a smooth ride last year, though. Late in June, the United Kingdom shocked the world when it voted to leave the European Union. *Financial Times* reported global markets lost \$3 trillion during two days of brutal trading, including “...a nearly \$1tn loss for the S&P 500, or the third worst two-day drop ever in value terms.”

Markets recovered relatively quickly after the Brexit drop. However, it looked like another rout was in the works in November as the U.S. presidential election votes rolled in. The initial reaction of global markets to Donald Trump's election was panic; however, optimism soon prevailed and U.S. markets rallied on hopes the President-elect's yet-to-be defined policies would bolster growth and positively affect the global economy.

The expectation of stronger growth, along with an anticipated December rate hike by the Federal Reserve, pushed bond yields higher and investors moved assets out of bonds and into stocks. *Barron's* reported:

“The 30-year bond climbed 0.3 percentage point to 2.94 percent, resulting in a 6.3 percent decline in price. (Bond prices move inversely to yields.)...It wasn't just Treasuries. Municipal bonds, corporate bonds, and preferred securities all fell. Bloomberg estimates \$1 trillion in the value of bonds evaporated last week after the election.”

At the end of 2016, investor sentiment had risen well above the long-term average. More than 45.5 percent of participants in the AAII Investor Sentiment Survey were feeling bullish. Investors weren't the only ones feeling optimistic. The *Investors Intelligence* survey of investment advisors found the bulls (59.8) outnumbered the bears (19.6) quite significantly in late December. The Bull/Bear Ratio was at 3.05, according to *Yardeni Research*.

The ratio is considered by many to be a contrarian indicator. When the Bull/Bear Ratio is at 1.0 or lower, and when it is at 3.0 or higher, we may be near a turning point for stock markets, according to *Investing Answers* and *The New York Times*.

Data as of 12/30/16	1-Week	Y-T-D*	1-Year*	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-1.1%	9.5%	8.5%	6.7%	12.2%	4.7%
Dow Jones Global ex-U.S.	1.0	1.8	1.3	-3.5	2.9	-1.3
10-year Treasury Note (Yield Only)	2.5	NA	2.3	3.0	1.9	4.7
Gold (per ounce)	2.5	9.1	9.4	-1.3	-5.9	6.1
Bloomberg Commodity Index	1.4	11.4	12.1	-11.7	-9.1	-5.9
DJ Equity All REIT Total Return Index	1.6	8.9	7.9	12.6	12.0	5.0

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.

\*The year-to-date and one-year returns are different. The year-to-date return reflects performance from 12/30/2015 to 12/30/2016. The one-year return reflects performance from 12/31/2015 to 12/30/2016.

\*\* US Treasuries may be considered “safe haven” investments but do carry some degree of risk including interest rate, credit and market risk. They are guaranteed by the US 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.

**HOW IMPORTANT IS A COLLEGE DEGREE?** At the University of Baltimore 2016 Midyear Commencement, Federal Reserve Chair Janet Yellen shared her thoughts about the importance of college:

“Economists are not certain about many things. But we are quite certain that a college diploma or an advanced degree is a key to economic success. Those with a college degree are more likely to find a job, keep a job, have higher job satisfaction, and earn a higher salary. The advantage in earnings is large. College grads' annual earnings last year were, on average, 70 percent higher than those with only a high school diploma. Back in 1980, the difference was only 20 percent. The gap in earnings is significant only a few years after graduation – almost \$18,000 a year, according to some recent data. Beyond these advantages, research also shows that a college or graduate degree typically leads to a happier, healthier, and longer life.”

There appears to be significant benefits to attending college. However, *Aon Hewitt* recently suggested there also may be some drawbacks, especially for students who borrow to pay for their degrees. *Aon's* survey of 2,000 U.S. workers found 44 percent of Millennials, 26 percent of Gen X, and 13 percent of Baby Boomers are repaying student loans which, “...can have a long-term impact on workers' financial future.”

The survey found just 71 percent of workers with student loans were participating in employer-provided retirement plans as compared to 77 percent of workers without student loans.

## **Weekly Focus – Think About It**

“In other words, I claim, if we really want to improve our judgment as individuals and as societies, what we need most is not more instruction in logic or rhetoric or probability or economics, even though those things are quite valuable... We need to learn how to feel intrigued instead of defensive when we encounter some information that contradicts our beliefs.”

--*Julia Galef, Co-founder of the Center for Applied Rationality*

Best regards,

“Your Beacon Wealth Management Team”

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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\* 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.
- \* All indices referenced are unmanaged. 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.
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