



The Parks Wealth Report for the Week of October 20th, 2014

On a Personal Note from Maria Delzotto...

Autumn is one of my favorite times of the year! I love the brightly colored leaves, the sweet scent of cinnamon apples and everything pumpkin, from the traditional home-baked pumpkin pie to the newest seasonal menu item of a spiced pumpkin latte at my favorite coffee shop.

Now that we have one son in college, my husband and I look forward to our annual trip this time of year for Parents' Weekend at his college in Boston. We enjoyed the change of color during our recent ride up north. We started off on Friday night with a phenomenal concert by The Boston Pops. We woke up to a beautiful morning of sunshine and crisp air for a tailgating party with friends followed by a football game complete with all the traditional college hoopla of marching bands and student chants. Dinner on Saturday night was in Little Italy at the North End at a quaint open-air restaurant with several of our son's friends and families. After a stroll down Hanover Street, we ended the night with a delicious cup of cappuccino and a freshly-baked cannoli. Life is good.

I hope you truly enjoy everything beautiful this season has to offer!



Best regards,

Maria

Business Operations Administrator



The Markets

It's a little early for Halloween, but markets sure got spooked last week. After a 21-month ride to mid-September highs, stock markets jolted and shook investors last week like the most dramatic and scream-inducing rollercoaster at an amusement park's fright night. Barron's described it like this:

"The Dow Jones Industrial Average endured dizzying swings each day, with a 460-point move midday on Wednesday. That's when the market came closest to hitting a correction phase - that is, down 10 percent from the highs. The Standard & Poor's 500 index fell to 1,820.66, or down 9.5 percent intraday from the all-time closing high of 2011.36, before closing on Wednesday down 7.4 percent from highs."

Despite the wild ride, by Friday's close, major U.S stock indices were down about 1 percent for the week.

Restoring some perspective

After a week like last week, it's important to take a deep breath and cast a calm eye over current financial and economic circumstances. This can help restore perspective and ensure sound decision-making. Here are a few points to consider:

- **Markets go through corrections:** Last week's drop didn't quite meet the definition of a market correction, but it came close. It's no secret stock market corrections can be unnerving but, as Kiplinger's explained recently, "Corrections are an inevitable part of investing. Since 1932, declines of 10 percent to 20 percent (the traditional definition of a correction) have occurred an average of every two years, according to InvesTech Research." Based on history, 10 percent corrections are normal and to be expected. It has been three years since our last correction.
- **There is a lot happening in the world:** 'When it rains, it pours,' as they say. A whole host of factors contributed to last week's market volatility. Let's take a brief look at some prominent concerns:

- **Monetary policy adjustments in the United States.** The Federal Reserve has been moving away from the highly accommodative monetary policies it has pursued in recent years and that has some investors worried. Quantitative easing is expected to end this month. The next step is raising the Fed funds rate which is expected to happen next year. Last week, St. Louis Fed President James Bullard reassured markets when he suggested, "The central bank should extend its asset-purchase program when policy makers meet later this month. U.S. stocks erased losses and Treasury yields rose on expectations the Fed will take action to insulate the United States from global economic weakness," reported Bloomberg.
- **Possible deflation in the Eurozone.** It's not here yet, but some Eurozone countries have fallen back into recession and the region is showing no growth. The European Central Bank reduced rates in June and September and is expected to begin a round of bond buying next week. These efforts may improve productivity and spur growth.
- **The strengthening U.S. dollar could affect global liquidity.** While a strong dollar has potential to slow growth in emerging countries, liquidity issues may be balanced out by the effect of falling oil prices. Reuters reported, "The falling oil price... will improve household budgets in the United States hugely - one study from Citi estimates the global windfall so far at \$660 billion which includes a \$600 per-household bonus in the United States." More money in the pockets of U.S. consumers may translate into stronger emerging market economies.
- **Slowing overseas economic growth.** Slower growth in China is affecting markets around the world. Germany has experienced some economic weakness recently. Brazil is in recession. U.S. economic growth is slow but steady and is not expected to change.
- **The potential spread of Ebola.** "This is a terrible human tragedy but Ebola's transmission - through bodily fluids - appears to be more difficult than SARS... The cost will be high in human terms but, so far, there is nothing to suggest it won't eventually be contained," reported Barron's.
- **Political unrest and military conflicts persist.** Ukraine, the Middle East, Hong Kong, and other regions of the world are embroiled in conflict. Unrest often impedes economic growth.

When you add to the mix human emotion and anxiety that has lingered since the financial crisis, you create the potential for a week like the one we just had.

- **Growth is healthy in the United States:** Despite last week's market volatility, U.S. stock market fundamentals haven't changed. Barron's said: "Fundamentally, the market is fairly valued, but not overvalued, and the economic backdrop remains healthy. The U.S. economy looks to be growing at a healthy pace - 4.6 percent in the second quarter and an estimated 3 percent in the third. Third-quarter earnings are expected to rise 5.1 percent year-to-year, according to FactSet. Employment and manufacturing growth reaffirm the trend and, while retail sales slipped 0.3 percent in September, falling gasoline prices have boosted consumer confidence."

Barron's also pointed out that, at Thursday's close, 35 percent of the companies in the Standard & Poor's 500 had dividend yields that were higher than the 2 percent yield on 10-year U.S. Treasuries. The point being, market downturns often create opportunities.

- **Accommodative monetary policy has suppressed volatility:** The Fed's policies have kept market volatility lower in recent years than it might have been otherwise. If you think back, you may remember the Chicago Board Options Exchange's Volatility Index (VIX), also known as Wall Street's fear gauge, was at extraordinarily low levels this year. It moved from 12 to 26 during the past month. The historical average for the VIX is 20, and it reached 80 during the financial crisis. We need to get used to the idea that markets are likely to be more volatile as monetary policy normalizes, according to experts cited by Barron's. The thing to remember is market fluctuations are not unusual. They may make us uncomfortable, but they should be expected.

Maintaining a disciplined approach

As you know, we have a disciplined investment process that was designed to help you work toward your financial goals. While we monitor economic and market developments closely, we don't let the noise of day-to-day events determine our actions. We will not take action until our process indicates we should. It's important for you to understand we make decisions about your account all the time, and much of the time we decide to do nothing. Although no strategy is assured success or protection against loss, we have confidence in our process. It is the reason we sleep well at night.

Data as of 10/17/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-1.0%	2.1%	8.9%	16.3%	11.4%	5.4%
10-year Treasury Note (Yield Only)	2.2	NA	2.6	2.2	3.4	4.1
Gold (per ounce)	1.3	2.7	-6.4	-9.8	3.3	11.4
Bloomberg Commodity Index	-0.6	-6.6	-9.1	-7.2	-3.0	-2.5
DJ Equity All REIT Total Return Index	1.6	17.4	10.8	17.6	16.6	8.4

S&P 500, 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.

Weekly Focus - Think About It

"Wealth is the ability to fully experience life."

--Henry David Thoreau, American author

Best Regards,



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- * 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 London afternoon gold price fix as reported by the London Bullion Market Association.
- * The DJ 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 TR 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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