Weekly Commentary **September 28, 2015**

The Markets and the Economy

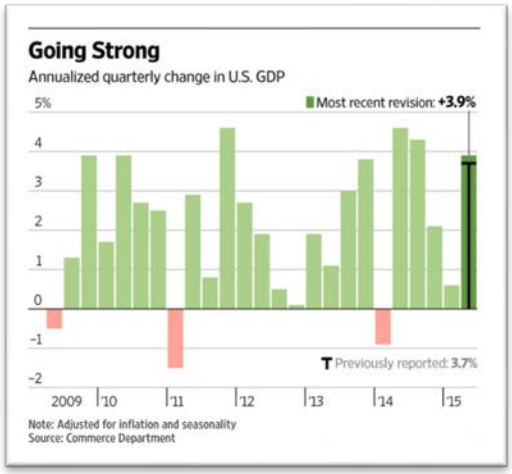
U.S. stock indexes ended the week lower but managed to recoup some losses Friday after Federal Reserve Chair Janet Yellen said that global growth is strong enough to withstand emerging markets turmoil. Her comments eased the stock rout that began last week when the Fed kept interest rates on hold amid global growth concerns. Yellen said the central bank is on course to raise rates later this year, although she acknowledged surprises could change the Fed's plan. Nevertheless, major global stock indices lost ground for the week as Asian economic reports indicated further weakness.

Last Week's Headlines

- Eurozone economic activity grew more slowly in September on weakness in China, but the impact was less severe than expected. Markit's composite PMI fell from 54.1 in August to 53.9 in September. However, new orders rose to a five-month high, and businesses hired workers at the fastest pace since February 2014.

- In a speech at the University of Massachusetts, Fed Chair Janet Yellen seemed to suppress some uncertainty about the U.S. economy, saying she expects the Fed to raise interest rates "sometime later this year." Of course, she qualified the prediction by saying the organization would continue to rely on economic data.

- In an announcement that came as a surprise to even some of his closest congressional colleagues last Friday, John Boehner (R-OH) announced his resignation as House Speaker and congressman, effective October 30. The announcement follows long-term criticism by members of his own party that the Speaker was not strong enough in supporting GOP principles, and comes amid heated negotiations over a bill that is needed to extend federal funding beyond September 30.



- The third estimate for second-quarter gross domestic product (GDP) was revised upward to 3.9% from the previous estimate of 3.7%, according to the Bureau of Economic Analysis. The growth is primarily due to accelerations in consumer spending, exports, nonresidential fixed investment, and state and local government spending.

- After three months of gains, total existing home sales fell 4.8% in August to 5.31 million. Moreover, July figures were revised downward to 5.58 million, reported the National Association of Realtors® (NAR). Despite the drop, sales are 6.2% higher than one year ago, and have risen year-over-year for 11 consecutive months. The median existing-home price for August was $228,700, 4.7% higher than in August 2014. Lawrence Yun, NAR's chief economist, attributed the decrease to tight inventories.

- On the other hand, sales of new homes continue to be an economic bright spot, rising 5.7% in August, to 552,000, according to the U.S. Census Bureau and the U.S. Department of Housing and Urban Development. The figure is nearly 22% above the August 2014 estimate. The median sales price of new homes in August was $292,700, while the average was $353,400.

- Jobless claims rose by 3,000 for the week ended September 19, to close at 267,000. The advance seasonally adjusted insured unemployment rate remained unchanged at 1.7%.

- The University of Michigan's final reading on consumer sentiment for September was 87.2, compared to August's 91.9. Although at its lowest level in 11 months, the reading is 3% higher than it was a year ago. It is also higher than the mid-September figure reported earlier this month. "The decline in optimism continued to narrow in late September as consumers increasingly concluded that the stock market declines had more to do with the international conditions than the domestic economy," said Surveys of Consumers chief economist Richard Curtin.

Eye on the Week Ahead

Eyes will be on Washington this week, to see if lawmakers can agree on a measure to continue funding the federal government through early December. Investors will monitor whether Boehner's resignation announcement will affect the negotiation process. Upcoming economic reports include Personal Income and Consumer Spending (9/28), Consumer Confidence (9/29), Jobless Claims (10/1) and the Employment Situation (10/2).

HCM Financial Independence Planning Series Article

Five Ways to Manage Risk in Your Retirement Savings Plan

Your employer-sponsored retirement savings plan is a convenient way to help you accumulate money for retirement. Using payroll deductions, you invest for the future automatically, following that oft-noted advice to "pay yourself first." But choosing to participate is just one important step. Another key to making it work for you is managing risk in your portfolio. The following are five ways to tackle this important task.

1. Know your personal risk tolerance

Gauging your personal risk tolerance – or your ability to endure losses in your account due to swings in the market – is an important first step. All investments come with some level of risk, so it's important to be aware of how much volatility you can comfortably withstand before choosing investments.

One way to do this is to reflect on a series of questions, such as:

- How would you react knowing the value of your retirement portfolio dropped 5%? 10%? 20%?

- How much time do you have until you will need the money? Typically, the longer your time horizon, the more you may be able to hold steady during short-term downturns in pursuit of longer-term goals.

- Do you have savings and investments outside of your plan, including an emergency savings account?

HCM works with clients to determine risk tolerance and risk capacity for the accounts we manage – if you have a plan at work and you'd like help matching its allocation to your risk profile, please talk to your Wealth Advisor.

2. Develop a target asset allocation

Once you understand your risk tolerance, the next step is to develop an asset allocation mix that is suitable for your savings goal while taking your risk tolerance into consideration. Asset allocation is the process of dividing your investment dollars among the various asset categories offered in your plan, generally stocks, bonds, and cash/stable value investments. If you're a young investor with a hardy tolerance for risk, you might choose an allocation composed heavily of stocks. On the other hand, if retirement is less than 10 years away and you fear losing money, your allocation might lean more toward bonds and cash investments, which provide less opportunity for capital appreciation, but provide more stability in value.

3. Diversify with a purpose

Even the most aggressive investor can potentially benefit from diversification, which generally means not putting all your money in one type of investment. Let's take one example from above: Although that young investor may choose to put a large chunk of her retirement account in stocks, she should still consider putting some of the money into bonds and possibly cash to help ease losses and take advantage of recoveries in the stock market. Even within the stock allocation, she may want to diversify among different types of stocks, such as domestic, international, growth, and value stocks.

4. Understand dollar cost averaging

When you contribute to a retirement plan at work, chances are you contribute an equal dollar amount each pay period, which then purchases shares of the investments you have selected. This process – investing a fixed dollar amount at regular intervals – is DCA. As the prices of the investments you purchase rise and fall over time, you take advantage of the swings by buying fewer shares when prices are high and more shares when prices are low – in essence, following the old investing adage to "buy low." After a period of time, the average cost you pay for the shares you accumulate may be lower than if you had purchased all the shares with one lump sum.

DCA encourages you to continue investing in down markets, and thus, reduces the average price per share you've purchased.

5. Perform regular maintenance

During the reviews of your retirement plans, determine if your risk tolerance or time horizon has changed and check your asset allocation to determine whether it's still on track. You may want to make other changes in your portfolio to keep it in line with your circumstances. Such regular maintenance is critical to help manage risk in your portfolio.

HCM monitors your managed accounts on an ongoing basis, and performs active account maintenance, such as tactically reducing risk in our Advance and Defend™ Portfolios and rebalancing in our Strategic Portfolios. If you would like help with the account maintenance for your plan at work, please talk to your Wealth Advisor.

Weekly Focus – Think About It
"People seldom improve when they have no other model but themselves to copy"
-*Oliver Goldsmith, Novelist*

HCM Mission Statement
We work passionately to help our clients and their families enjoy a financially independent life by providing sophisticated wealth planning solutions.

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- Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
- Past performance does not guarantee future results.
- You cannot invest directly in an index.
- Consult your financial professional before making any investment decisions.

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