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Thomas Cymer CFP® CRPC® Presents:

WEEKLY ECONOMIC UPDATE

October 6, 2014

WEEKLY QUOTE

"Men are equal; it is not birth but virtue that makes the difference."
- *Voltaire*

WEEKLY TIP

Have you always done your own taxes? If your budget allows, consider hiring a tax preparer next year. Besides shortening your to-do list, it may reveal opportunities for tax savings that you may not find on your own.

WEEKLY RIDDLE

It usually loses a head by noon, but that same head often returns by midnight. What is it?

Last week's riddle: What 2 common English-language words both contain 2 Cs in a row, 2 Ss in a row and two Ls in a row?
Last week's answer: Successfully and unsuccessfully.

JOBLESS RATE DECLINES TO 5.9%
Unemployment lessened another 0.2% in September as firms added 248,000 new workers to their payrolls. The nation hasn't seen joblessness of less than 6% since July 2008. In presenting its latest report, the Labor Department also revised summer hiring totals: the August job gain went from 142,000 to 180,000, and the July gain went from 212,000 to 243,000. The U-6 rate (underemployed & unemployed) also fell 0.2% last month to 11.8%, a 71-month low.[1]

ISM GAUGES DIP
In September, the Institute for Supply Management's factory PMI retreated to 56.6 from the prior 59.0. Its service sector PMI also pulled back, with a reading of 58.6 compared to 59.6 in August. Analysts polled by MarketWatch had anticipated both indices descending to 58.5, but both September readings indicate strength.[2]

PENDING HOME SALES DOWN 1.0% FOR AUGUST
For four out of the previous five months, the National Association of Realtors had reported increases in the number of Americans signing contracts to buy homes. Is this dip a hint of a cooler housing market this fall? In other real estate news, July's S&P/Case-Shiller home price index showed an overall 6.7% annualized.[3]

CONSUMERS SPEND MORE, WITH LESS CONFIDENCE
Personal spending rose 0.5% for August, according to the Commerce. Yet the Conference Board consumer confidence index took an unexpected September slip, falling 7.4 points to 86.0.[3]

A CHOPPY START TO THE NEW QUARTER
Volatility is definitely back: big swings characterized the market last week. The Dow fared best, losing 0.60% to settle at 17,009.69 Friday. The NASDAQ (-0.81% to 4,475.62) and S&P 500 (-0.75% to 1,967.90) saw slightly larger descents.[4]

THIS WEEK: Earnings season begins: Family Dollar kicks things off Monday evening, and Tuesday brings Q3 results from Yum! Brands. Wednesday, the minutes from the September Federal Reserve policy meeting will be released, complementing earnings from Alcoa, Costco, Ruby Tuesday, Safeway and Monsanto. Thursday offers the latest initial jobless claims numbers, August wholesale inventories data and Q3 results from PepsiCo; additionally, a G20 meeting begins in Washington, D.C. Friday, earnings arrive from Fastenal and Infosys.

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+2.61	+13.42	+15.86	+6.65
NASDAQ	+7.16	+18.58	+23.70	+12.92
S&P 500	+6.47	+17.23	+18.39	+7.34
REAL YIELD	10/3 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO

10 YR TIPS	0.52%	0.43%	1.54%	1.86%

Sources: online.wsj.com, bigcharts.com, treasury.gov - 10/3/14[5,6,7,8]

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

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Should You Buy the Dips?

Market retreats & corrections may herald opportunities.

Provided by Thomas Cymer CFP® CRPC®

When stocks retreat, should you pick up some shares? If you like to buy and hold, it may turn out to be a great move.

Buying during a downturn or a correction may seem foolish to many, but if major indexes sink and investors lose their appetite for risk, you may find excellent opportunities to purchase shares of quality firms.

Remember what Warren Buffett said back in 2008: "A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful." Even in that terrible bear market, savvy investors like Buffett sensed an eventual upside.[1]

Great stocks could go on sale. Corrections and downturns are part of the natural cycle of the equities markets. Wall Street has seen 20 corrections (10% or greater declines in the S&P 500) in the last 70 years, and stocks have weathered all of them.[2]

A comeback can occur not long after a correction: as S&P Capital IQ chief stock strategist Sam Stovall reminded *Kiplinger's Personal Finance,* it usually takes about four months for the market to get back to where it was.[2]

After a market descent, there is ultimately a point of capitulation - a turning point when investors start buying again. Prior to that moment, you may find some good deals. Why not make a list of stocks you would buy at the right price, and perhaps define that price?

Some downturns & corrections go under the radar. Particular sectors of the market may dip 5%, 10% or more without much fanfare, because the focus is constantly on the movement of the big benchmarks. You might want to keep an eye on a particular slice of the market that has turned sour

- it could turn sweet again, and sooner than bears think.

Don't let the gloom dissuade you. Remember 2008? Stocks were supposedly down for the count. You had people who believed the Dow would fall below 5,000 and stay there. They were wrong. Seasoned investors like Buffett knew that measures would be taken to repair the economy, restore confidence and right the markets.

As he noted in an October 2008 *New York Times* op-ed piece, "To be sure, investors are right to be wary of highly leveraged entities or businesses in weak competitive positions. But fears regarding the long-term prosperity of the nation's many sound companies make no sense. These businesses will indeed suffer earnings hiccups, as they always have. But most major companies will be setting new profit records 5, 10 and 20 years from now."[1]
Since the end of World War II, Wall Street has experienced 13 bear markets and 20 corrections. Even so, large-company stocks have returned an average of 11.1% per year since 1945.[2]

Decline thresholds may be useful. If you practice dollar-cost averaging (i.e., you invest a set amount of money each month in your retirement account), you know that your money will end up buying more shares when prices are lower and fewer when they are higher. You can lift this strategy and apply it in a market dip or downturn. Instead of investing a set amount of funds per time period, you invest a set amount of funds at a decline threshold. So if the balance of your retirement account falls 5%, you put a set amount of funds in. If shares of a particular company fall 5%, you use a set amount of funds to acquire more of them.

Some people don't like the buy-and-hold approach and would contend that tactical asset allocation has the potential to work just as well or better in a downturn. Whether you like to buy and hold or not, the chance to buy low is not easily dismissed. No one is guaranteeing you will sell high, of course - but you might find bargains amid all the bears.

Think about taking the opportunity to add to your portfolio if the market pulls back. A market drop may be your cue to buy shares of quality companies at a cheaper price.

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Citations.

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Week of Se ptember 30th, 2013

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