Lassus Wherley
Building Better Futures
...a View from the Top

Issue 61 September 16, 2016

Election 2016 and the Fed!

Here are our thoughts on the election, interest rates, the financial markets in 2016 and answers to a couple of great questions.

It seems like every time I have a discussion with someone these days the first question they ask is concerning the impact of the presidential election on the economy and the markets. Everyone seems to be worried that if the candidate they support is not elected, the world will come to an end. I don't have a crystal ball but I do know we have survived some pretty interesting times with leaders in the past. Some presidents I think were incredibly successful and others not so much. We have certainly made mistakes in our election of leaders in the past and obviously were not always happy with the decisions these elected leaders have made, but the bottom line is that we have managed to work our way through it and the world has survived.

The polls have gone back and forth with who is leading in different states, but the reality is, we really won't know who our next president will be until after the election. I won't go through the details but here is a basic comparison of the different policies being discussed by Secretary Clinton and Donald Trump.

Moody's economist Mark Zandi provided some interesting analysis on the tax and economic plans. The primary differences were related to taxation of the higher income folks, with Clinton's plan increasing taxes on the top 2% to 5% and increasing the top 1% to pay significantly more in taxes than they currently do. The tax system would become more progressive under this plan and raise additional revenue estimated at

$1.46 trillion over the next decade. Trump's proposed plan would reduce the number of income tax brackets from seven to three, with the top marginal rate coming down from 39.6% to 25%. He has also proposed eliminating federal estate and gift taxes, the alternative minimum tax and

the surtax of 3.8% on investment income of high-income households. Some economists have estimated that this plan would actually increase the national debt by a significant amount.

On the corporate tax side, Clinton would increase the threshold for foreign ownership to 50% from 20% to limit corporate inversions which means they would be subject to US taxes if foreign ownership was less than half. She also wants to tax high-frequency trading and impose a "risk fee" on very large financial institutions.

*The bottom line is there are positives and negatives to both candidates. We each have to review what we believe and what we think are the most critical factors. For some it is human rights while for others it is taxes, but please take the time to really understand the differences between the candidates and then regardless of who you support -**please vote**.*

Trump proposed reducing the corporate tax rate to a maximum of 15% from the current 35% while repealing most tax breaks for business.

The most significant differences between the two is in immigration reform.

The reality is that presidents can't actually pass legislation, so we wouldn't expect changes to tax laws or any other major area without significant discussion. Being realistic we would see a lot of fighting and active discussion regardless of whether we have a President Clinton or a President Trump.

But it isn't just a presidential election. The other critical elections are in the Senate and the House. There are major battles being waged by the Democrats to take back the Senate which could happen. If the Democrats control the Senate and the Republicans control the House, we could continue to see another couple of years of the status quo.

The financial markets are currently pricing in a Secretary Clinton victory. The expectation of a Clinton win leads them to believe that we won't see major change. Whether that is true or not remains to be seen. As the presidential race has tightened we have definitely seen an increase in volatility in the markets due to the increasing uncertainty.

Although things seem a bit crazier than usual with this election, it is important to remember that election years have historically been positive for stock markets and that stocks have performed well under both Democratic and Republican presidents. It is also important to remember that our government does in fact have a system of checks and balances for an elected president and that a long-term focus remains prudent despite the outcome of the election. We will continue to see volatility as we get closer to November and polls continue to fuel fear and sometimes excitement.

The bottom line is there are positives and negatives to both candi-

dates. We each have to review what we believe and what we think are the most critical factors. For some it is human rights while for others it is taxes, but please take the time to really understand the differences between the candidates and then regardless of who you support -**please vote**.

When you review the positions for candidates, make sure you look at all the issues, including the economy, the environment, taxes, human rights, and certainly our relationship with countries around the world. We do not live in isolation, and how we get along with others around the world is even more important today. It is also worthwhile to fact check much of what you read and hear from the media these days.

And the Markets Go Up and Down

In our last View from the Top, we discussed Brexit (the vote for Britain to exit the European Union) as being a key factor driving volatility in the equity markets. We did see markets turn down in the few trading days following the Brexit vote on June 23, with the S&P 500 shedding roughly 5%. However, the majority of those losses were recovered in relatively short order, and the S&P 500 posted positive returns in June, July, and August. The consequences of the Brexit vote and the overall impact on Britain remain uncertain and will continue to play out over time. In the meantime, the upcoming election and uncertainty surrounding monetary policy decisions by the Fed have taken center-stage and have been the primary driver of the recent swings in the market.

There are always uncertainties that cause volatility in equity markets, and markets often climb a wall of worry as was the case over the last three months. US Large Cap stocks, as measured by the S&P 500, were up 0.26% in June, 3.69% in July, and 0.14% in August. US Small Cap stocks, as measured by the Russell 2000, were down slightly by -0.05% in June followed by strong returns of 5.97% and 1.76% in July and August, respectively. The S&P 500 index was up 7.82% year-to-date through the end of August, with the Russell 2000 up 10.23% over the same period. Stocks overseas had mixed returns over the last few months, with the MSCI EAFE index (developed international stocks) down -3.36% in June, followed by positive returns of 5.07% and 0.07% in July and August, respectively. The MSCI EM Index (emerging market stocks) was up 4.00% in June, followed by returns of 5.03% and 2.49% in July and August, respectively. Year-to-date through the end of August, the MSCI EAFE index

The consequences of the Brexit vote and the overall impact on Britain remain uncertain and will continue to play out over time. In the meantime, the upcoming election and uncertainty surrounding monetary policy decisions by the Fed have taken center-stage and have been the primary driver of the recent swings in the market.

is up by 0.49%, while the MSCI EM index was up 14.55% over the same period. The differences in returns between US and international markets, as well as the recent volatility, continue to highlight the importance of global diversification.

Fixed income asset classes continue to post solid returns as well, with the Barclays Aggregate Bond Index up 5.86% and the Barclays Municipal Bond Index up 4.54% year-to-date through August. Diversification within our fixed income portfolio has continued to prove beneficial, with our emerging markets fixed income fund up 17.27% year-to-date through the end of August.

In addition to economic data, the market continues to focus on corporate earnings results. Overall earnings for the 2nd quarter were negative but were an improvement over the 1st quarter. Furthermore, the majority of companies have reaffirmed earnings guidance for the remainder of the year.

The US economy continues on the path of slow growth, with GDP growth coming in at 1.1% for the 2nd quarter, following 0.8% growth in the 1st quarter. The jobs market continues to be a positive for the economy, with jobless claims remaining at historically low levels, better-than-expected figures for payroll increases in the most recent employment report, and the unemployment rate currently at 4.9%. The housing market has reported mixed data as of late but continues to be a net positive for the economy. The consumer has also been showing signs of strength recently, with both personal income and consumer spending continuing to post gains. Consumer spending is one of the largest contributors to economic growth, so the recent data is an encouraging sign for 3rd quarter GDP. These positives are somewhat offset by continued weakness in business investment, relatively soft factory sector readings overall, as well as weakness in foreign demand due in part to a strong US dollar.

In addition to economic data, the market continues to focus on corporate earnings results. Overall earnings for the 2nd quarter were negative but were an improvement over the 1st quarter. Furthermore, the majority of companies have reaffirmed earnings guidance for the remainder of the year. As with most things, the market likes to see consistency and does not favor earnings coming in below estimates or significant changes in future guidance for earnings. As such, the relative stability in earnings guidance has been a positive for markets, with overall earnings in the 3rd and 4th quarters expected to show improvement and move into positive territory.

Outside of economic data and earnings, the market has been paying close attention to recent speeches by Janet Yellen and comments from Fed meetings to try and glean a better idea surrounding the timing for interest rate hikes. Recent comments by Janet Yellen at the Fed's monetary policy sym-

posium in Jackson Hole, Wyoming, suggest that an interest rate hike may be on the table sooner rather than later. Yellen stated that "the case for an increase in the federal funds rate has strengthened in recent months," and reiterated that the Fed's decision will continue to be dependent on economic data. The odds of an interest rate hike in the upcoming September meeting (as measured by CME Group 30-Day Fed Fund Futures Prices) currently stand at an estimated 15% probability. Despite encouraging economic data as of late, we believe that the chances of an interest rate hike in September are offset by the easy monetary policy being employed by central banks around the world, as well as the upcoming election. The current estimated odds of an interest rate hike in November and December currently stand at 24% and 56%, respectively. However, we saw a knee-jerk reaction to Fed comments this past week that convinced many that the move isn't that far away. We saw the market lose about 2% based on that information.

Despite encouraging economic data as of late, we believe that the chances of an interest rate hike in September are offset by the easy monetary policy being employed by central banks around the world, as well as the upcoming election. The current estimated odds of an interest rate hike in November and December currently stand at 24% and 56%, respectively.

The election will remain a key focus of the markets leading up to the vote in November. History shows us that the uncertainty in the final stretch leading up to the election typically breeds elevated volatility for equity markets. The upcoming election, along with the speculation on whether or not the Fed will raise interest rates in the near future, has jumpstarted volatility in the equity markets. We saw a roughly 2.5% move down in the S&P 500 last Friday, after not seeing a 1% move in the market in either direction since July 8. That volatility continued as the market snapped back sharply on Monday, gaining roughly 1.5%, before trading down again on Tuesday. We expect the uncertainty regarding the election and interest rates to continue to drive volatility in the short term.

Here are a couple of great questions from some of our clients. Let us know if you have one you would like included.

Question: *I recently received a company class action notice for a stock I used to own. Does Lassus Wherley assist me in processing class action notices?*

Answer: Yes, we have assisted clients in processing class action notices in the past. However, we have recently identified a service that can handle this for us and our clients in a much more efficient and effective manner.

To better serve our clients we are working with Broadridge, a third-party provider, to process class actions. Broadridge adds a few key

benefits for our clients. One such benefit is filing class actions on the client's behalf, both class action notices received by you as well as those of which you may not be aware. Broadridge's advances in technology allow them to identify recovery opportunities for securities and then analyze and match investment positions relevant to clients. This means, even if you do not receive a class action notice, Broadridge will know of any class action notices new or pending.

The annual review is a good time to really examine your overall financial situation. While there is communication all year long, these face-to-face (or teleconference) meetings are devoted to discussing where you are and what may have changed in the recent past or what you expect to change in the near term.

There is a contingency fee assessed by Broadridge for any recovery made. The fee is 20% of any class action settlement. They will deduct the contingency fee of 20% from any recovery, and the remaining 80% would be deposited to the account that held the shares or fund pertaining to the class action. Lassus Wherley does not receive any portion of the 20% contingency fee charged. There is no charge to participate in the service unless you receive a setttlement.

Clients do not have to participate in this service. You may opt out when the service is rolled out to all clients by signing and returning a "negative consent" form. Basically, if we do not receive this form, you agree to use Broadridge to process these claims.

Question: *What should I do to get ready for an annual review with my advisor?*

Answer: The annual review is a good time to really examine your overall situation. While there is communication all year long, these face-to-face (or teleconference) meetings are devoted to discussing where you are and what may have changed in the recent past or what you anticipate may change in the near term. It is an opportunity for a more in-depth discussion. The annual review provides an opportunity to get an update on your situation, revisit goals and discuss your progress toward meeting those goals.

To have a productive and successful meeting, be sure to bring important documents that your financial advisor may not have access to, such as the following:

- Your most recent tax returns (if we don't process your tax returns)
- Recent paystubs showing deductions if you are still working
- Current Social Security benefit statements
- Updated copies of estate documents including Power of Attorney, Health Care Proxy and anything else that may have been updated
- Other statements you have recently received such as pension benefit calculations

You should also make a list of questions or items you want to discuss. Don't be reluctant to ask questions!

Here are some things to consider:

- Have you experienced changes in your financial status or do you expect changes soon?
- Have you experienced changes in your basic expenses?
- Is there something you have read or heard about that you would like to discuss or learn more about?
- Have you recently reviewed who you have designated to make your health care and financial decisions if you are unable to make them?
- Have you had recent health issues?

Taking the time for a complete review of your situation at the end of the year (or any time) will increase your ability to achieve your goals.

Keep in touch and remember that you are a long-term investor regardless of what happens in the financial markets in the short term.

Enjoy the fall and this great sunshine!

Diahann

Investment Committee:

Diahann W. Lassus, CFP®, CPA/PFS, Chair

Jodi A. Cirignano, CFP®, CPA Senior Financial Planner

Lisa McKnight, CFP®, Senior Financial Planner

J. Charles Pawlik, CFP®, CFA Investment Officer

Deborah J. Rivosa, CFP®, CFA, Chief Compliance Officer, Director, Business Development

Betty S. Thomas, Financial Planner

Compliance Disclosure

If you are a Lassus Wherley (LWA) client, please remember to contact us if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by LWA, or any non-investment-related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from LWA. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. LWA is not a law firm and no portion of the newsletter content should be construed as legal advice. A copy of LWA's current written disclosure statement discussing our advisory services and fees is available upon request.