

Markets Slide Before Key Fed Meeting

Weekly Update – September 15, 2014

Markets closed last week on a down note - breaking five straight weeks of gains - as investors hedged their bets ahead of a pivotal Federal Reserve Open Market Committee Meeting. For the week, the S&P 500 lost 1.10%, the Dow dropped 0.87%, and the Nasdaq slid 0.33%.¹

After weeks of great performance, markets finally hit pause as investors declined to push markets higher ahead of a big week. Fed decisions have driven a lot of market activity in recent months and the upcoming FOMC meeting is highly anticipated. Analysts are poised to leap on any hint of Fed economists' thinking about the state of the economy and the return to normalized monetary policy.

What will the Fed be looking for? Overall, clues that the U.S. economy is still on the path to sustainable, broad-based growth. So much of what the FOMC does comes down to interpretation and reading the tea leaves; Fed economists are accustomed to delving deeply into the data and making judgments based on cloudy and uncertain data.

One of the biggest variables in the Fed's evaluation of the economy is the labor market. So far, most indicators show that the labor economy is improving, albeit modestly. The August jobs report was grim and showed that job creation slowed over the last three months. Worse, the labor force participation rate was a measly 62.8%, the lowest rate seen since the 1970s.²

However, fresh research by a group of Fed economists suggests that declines in labor force participation since the financial crisis – often attributed to discouraged Americans who drop their job searches – may actually be due to the natural aging of the U.S. workforce as boomers move into retirement.³ If true, this means that the Fed may be able to discard some of their concerns about discouraged workers.

Digging a little deeper, the number of job openings in the U.S. ticked down slightly in July, but is still close to a 13-year high. On the other hand, the pace of hiring hasn't kept up with job openings, indicating that workers may be struggling to retool for new jobs or that employers may not be offering competitive wages.⁴ Unfortunately, these are not problems that the Fed can solve, but economists need to factor these issues into their thinking to ensure that they don't take away the training wheels too soon.

There are a couple of decisions that could come out of the FOMC meeting. (1) The Fed could decide to continue steadily trimming back bond purchases as they have at every meeting since the taper began in December. This decision would keep us on track for an October finish. (2) If the economic oracles show that the economy is doing well, the Fed could decide to accelerate the pace of its taper, ending its quantitative easing programs ahead of schedule. While doing so would be a huge vote of confidence for the economy, markets might react badly to the news that the party is ending early. (3) If

economic prospects look uncertain, the Fed could decide to pause its taper, keeping bond purchases going until the end of the year.

Whatever decision comes out of the meeting, investors can expect some volatility as markets adjust to the news. Investors will also want to gauge the expected effects of a fresh round of sanctions against Russia, which many analysts worry will dampen growth in Europe.⁵ All told, it'll be an informative week and we'll keep you posted.

ECONOMIC CALENDAR:

Monday: Empire State Mfg. Survey, Industrial Production

Tuesday: PPI-FD, Treasury International Capital

Wednesday: Consumer Price Index, Housing Market Index, EIA Petroleum Status Report, FOMC Meeting Announcement, FOMC Forecasts, **Chair Press Conference 2:30 PM ET**

Thursday: Housing Starts, Jobless Claims, Philadelphia Fed Survey

Data as of 9/12/2014	1-Week	Since 1/1/14	1-Year	5-Year	10-Year
Standard & Poor's 500	-1.10%	7.42%	17.95%	18.08%	7.67%
DOW	-0.87%	2.48%	11.02%	15.37%	6.47%
NASDAQ	-0.33%	9.36%	22.92%	23.90%	14.11%
U.S. Corporate Bond Index	-1.01%	2.33%	4.29%	1.88%	0.88%
International	-0.01%	-0.78%	6.16%	4.12%	3.76%
Data as 9/12/2014	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.01%	0.05%	0.11%	1.83%	2.62%

Notes: All index returns exclude reinvested dividends, and the 5-year and 10-year returns are annualized. Sources: Yahoo! Finance and Treasury.gov. International performance is represented by the MSCI EAFE Index. Corporate bond performance is represented by the DJCBP. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

HEADLINES:

Factory output in China drops. Chinese factory production growth fell to the lowest level in six years, stoking fears that the world's second-largest economy might be cooling off. Weak readings in several other sectors increase the probability that China's central bank may undertake additional stimulus.⁶

U.S. retail sales rise in August. Retail sales, which account for about one third of consumer spending, rose broadly last month. While retail sales levels are still below pre-recession numbers, this increase bodes well for future spending and economic growth.⁷

Consumer sentiment hits 14-month high. Friday's report showed that U.S. consumer sentiment rose to the highest level in more than a year, as Americans felt more upbeat

about economic conditions. Though Americans still worry about a labor slowdown, they are more optimistic about the future.⁸

Import prices decline. The cost of imports into the U.S. fell by the largest amount in nine months, largely due to a sudden decrease in petroleum prices. While this drop may be short-lived, lower import prices will help keep inflation down and cut Americans a break on imported products.⁹



"If the world is cold, make it your business to build fires."

– Horace Traubel



Easy Eggplant Parmesan



Pair this hearty eggplant parmesan with a Caesar salad for a healthful weeknight meal.

Ingredients:

Serves 8

- 4 tablespoons olive oil
- 2 large eggplants (about 3 pounds total), sliced lengthwise
- Kosher salt and black pepper
- 1 1/2 cups marinara sauce
- 1 15-ounce container whole milk ricotta
- 2 teaspoons dried oregano
- 8 ounces fresh mozzarella, cubed, or 8 ounces shredded mozzarella
- 1/2 cup grated Parmesan (1 1/2 ounces)

Directions:

1. Preheat your oven to 450° F. Place a pasta strainer or colander over the sink, layered with two sheets of paper towels. Spoon the ricotta into the strainer and allow to drain for at least 30 minutes.
2. Coat two baking sheets with the olive oil and arrange the sliced eggplant into a single layer. Season with a pinch of salt and pepper and additional olive oil (if desired).
3. Bake the eggplant for about 15 minutes, rotating the sheets halfway through. The eggplant is done when the slices are soft and browned around the edges. Set aside to cool slightly and lower the oven temperature to 400° F.
4. Mix together the ricotta, half of the mozzarella, oregano, and a pinch of salt and pepper.
5. In a 3 qt. ceramic or glass baking dish, spoon enough marinara sauce to coat the bottom. Starting with eggplant slices, arrange alternating layers of eggplant, sauce, and ricotta mixture until all ingredients are exhausted. Top the final layer with sauce, the remaining mozzarella, and a final layer of Parmesan cheese.
6. Bake for about 20 to 25 minutes until the top is bubbling and browned. If the top is browning too quickly, tent with foil until done.

Recipe adapted from Dawn Perry | RealSimple.com¹⁰



Tips for Identifying Fraudulent Phone Calls

Hundreds of thousands of Americans have received phony phone calls purporting to be from the IRS. Scammers may demand payment for taxes owed or lure the unwary with promises of unexpected tax refunds. Like most con artists, tax fraudsters actually want access to financial accounts and sensitive personal information. The IRS has noted an uptick in over-the-phone tax scams and has the following tips:

- Fraudsters may know a lot about you when they call and may be able to spoof your caller ID to show that they are calling from an official number.
- If you don't answer the phone, they may leave an urgent callback request.
- If you receive a call that you think might be from the IRS, take down the agent's information and call them back at the official IRS hotline: 1-800-829-1040.

Remember, the IRS will never:

- Call you without mailing an official notice first.
- Demand that you immediately pay your taxes over the phone.
- Take a debit or credit card number over the phone.

- Threaten to call law enforcement or immigration services to arrest you for failure to pay.

If you believe that you (or someone you know) have been the victim of tax fraud, you can report the incident to TIGTA at 1-800-366-4484 or at www.tigta.gov. You can also contact the Federal Trade Commission at www.ftc.gov/. Use their “FTC Complaint Assistant” to report the scam. Please add "IRS Telephone Scam" to the comments of your complaint.

If you are worried about owing money to the IRS, contact a qualified tax expert or call the IRS directly at 1-800-829-1040.

Tip courtesy of IRS.gov¹¹



Fix Slices by Avoiding Flying Elbows

If you're struggling with pulled shots or slices, a flying elbow may be the cause. A common mistake amateurs make is to let their right elbow float away from their body at the top of the backswing. If this sounds like you, imagine yourself as a waiter carrying a tray of dishes; at the top of your backswing, you need to keep your forearm in a vertical position to avoid spilling your dishes. Practice this technique to keep your elbow relaxed and in towards your body.

Tip courtesy of Al Wagner | Golf Tips Mag¹²



Ask Your Pharmacy About Old Prescriptions

Getting rid of old and expired medications is often a hassle, but new regulations mean that pharmacies, clinics, and hospitals may be allowed to take back old drugs. It's a good idea to dispose of your old medications to avoid accidentally mixing up your prescriptions and to reduce the odds that potent medications could be stolen.

Ask your local pharmacy about options to drop off or mail in your expired medications. If you are unable to find a clinic or pharmacy willing to take back old medications, contact your local police station to find out the date of the next drug take-back event.

Tip courtesy of AARP¹³



Avoid Contaminating Natural Areas

The next time you go for a walk in a natural area, think about what pests and organisms you might be transporting home on the soles of your boots or shoes. Ecologists are concerned about the effects of invasive plants and diseases on delicate environments. To avoid contributing to the problem, The Nature Conservancy recommends:

- Picking off the seeds and detritus on the bottom of your shoes and boots before getting into the car.
- Cleaning your soles with a 10 percent bleach solution between hikes to kill off organisms.
- Carefully washing clothing and gear with hot soapy water to avoid contamination.

Tip courtesy of The Nature Conservancy¹⁴

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We love being introduced!*

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Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Diversification does not guarantee profit nor is it guaranteed to protect assets

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

The Dow Jones Corporate Bond Index is a 96-bond index designed to represent the market performance, on a total-return basis, of investment-grade bonds issued by leading U.S. companies. Bonds are equally weighted by maturity cell, industry sector, and the overall index.

The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate. The index is made up of measures of real estate prices in 20 cities and weighted to produce 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.

Google Finance is the source for any reference to the performance of an index between two specific periods.

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¹ <http://goo.gl/Ylu4k9>

² <http://www.investing.com/analysis/what-the-worst-jobs-report-of-the-year-really-tells-us-225722>

³ <http://www.reuters.com/article/2014/09/12/us-usa-fed-workforce-idUSKBN0H62NF20140912>

⁴ <http://abcnews.go.com/Business/wireStory/us-job-openings-13-year-high-hiring-rises-25376006>

⁵ <http://www.cnbc.com/id/101997089>

⁶ <http://www.cnbc.com/id/101994640>

⁷ <http://www.reuters.com/article/2014/09/12/us-retail-sales-idUSKBN0H71DF20140912>

⁸ <http://www.reuters.com/article/2014/09/12/us-usa-economy-consumersentiment-idUSKBN0H71LR20140912>

⁹ <http://www.reuters.com/article/2014/09/12/us-usa-economy-importprices-idUSKBN0H71EQ20140912>

¹⁰ <http://www.realsimple.com/food-recipes/browse-all-recipes/eggplant-rollatini-00100000075561/index.html>

¹¹ <http://www.irs.gov/uac/Five-Easy-Ways-to-Spot-a-Scam-Phone-Call>

¹² <http://www.golftipsmag.com/instruction/full-swing/quick-tips/dont-spill-the-dishes.html#.VBU2EGSSxt8>

¹³ <http://blog.aarp.org/2014/09/11/pharmacies-may-soon-be-able-to-take-back-old-drugs/>

¹⁴ <http://www.nature.org/greenliving/gogreen/everydayenvironmentalist/dont-hike-with-pests.xml>