

Markets posted another week of losses amid continued fears, though markets trimmed losses on Friday on better-than-expected earnings results from top companies. For the week, S&P 500 lost 1.02%, the Dow fell 0.99%, and the Nasdaq dropped 0.42%.¹

After reaching new highs in mid-September 2014, markets have been roiled by volatility and selling pressure. We know that market declines can be nerve wracking and we wanted to take the opportunity to discuss the recent pullback with our clients.

Market Corrections are Normal

Since 1928, the S&P 500 has generally experienced between three and four corrections of more than 5.00% each year; the October pullback was the 20th decline of 5.00% or more in the current bull market.² Declines of 10.00% or more are rarer, but are still seen nearly every 1½ years.³ Obviously, these are all averages and the performance of any single year can deviate significantly from historical norms.

In the current bull market cycle, markets have experienced just two declines of 10.00% or more: in Spring 2010 when the Federal Reserve launched its quantitative easing programs and in Summer 2011 when the euro appeared to be in trouble.⁴

Putting the Current Selloff Into Perspective

After a lengthy period of market gains - between January 1, 2013 and September 19, 2014, the S&P 500 gained 43.35%⁵ - many analysts were confident that a selloff had to happen eventually. The current selloff has largely been spurred by a combination of global worries: recessionary fears in Europe, slowing growth in China, some disappointing domestic economic reports, and Ebola concerns all contributed to the drop.

How far equities decline during a selloff depends on a lot of factors, including investor sentiment, corporate earnings, economic data, and growth prospects for the near future. In this case, markets are largely moving because of fear, not because of fundamental factors, so we can hope that the selloff will be brief. Although we ended the week with a loss, equities halted their slide on Friday and regained ground on the strength of recent earnings reports.⁶ Is the decline over? Hard to say.

Though the past can't predict the future, we can look back at past market declines for hints of what we might expect going forward. Since 2009, pullbacks of 5.00% or more

have lasted an average of about a month, peak to trough, meaning that the recent downturn may not be completely over.⁷

As of Friday's close, the S&P 500 was down 6.19% since its peak in mid-September.⁸ Markets have gone 1109 trading days since the last 10.00% + correction. Since the average is around 509 days between corrections, we might be overdue. However, we went more than 2,500 trading days between corrections in the mid-nineties, so there is precedent for the winning streak to continue.⁹ Let's also keep in mind that although the S&P 500 has lost ground this year and is hovering around 2.00% return, it's still up more than 8.00% since the same period last year.¹⁰

Looking Ahead

The week ahead is thin on economic data but earnings season will be in full swing, which means that positive earnings could override fear-based selling. However, global worries still exist and it's unknown how long the present weakness in the market will continue. We can hope that lower equity valuations, decent corporate earnings, and seller exhaustion will help push investor sentiment into positive territory as traders "buy the dip."

Though some economic headwinds exist, we believe that slowing growth in Europe will have only a modest impact on the U.S. economy. Declines in oil prices may be a net positive for the economy as consumers have more money to spend; weakness in the euro should help European exports and mitigate recessionary fears. Corporate earnings appear to be reasonably decent, which should also help spur market growth. While we can't predict the future, we believe that economic fundamentals are solid and favor continued market growth.

Conclusions

Though market corrections are rarely welcome, they are a natural part of the overall business cycle and it's important to take them in stride. Declines also provide an environment to test your risk tolerance and ensure that your financial strategies and asset allocations are aligned with your long-term objectives and appetite for risk.

As professional investors, we've learned to seek out the opportunities in market corrections and volatility. Declines often create openings for tactical investing and allow us to invest in high quality companies at attractive prices. While we can't use the past to predict the future, history tells us that having the patience to sit out brief rough patches often benefits our clients in the long run.

We hope that you have found this information educational and reassuring. If you have any questions about market corrections or are concerned about how the recent pullback may have affected your portfolio, please give us a call; we're always happy to speak with you.

ECONOMIC CALENDAR:

Tuesday: Existing Home Sales

Wednesday: Consumer Price Index, EIA Petroleum Status Report

Thursday: Jobless Claims, PMI Manufacturing Index Flash

Friday: New Home Sales

Data as of 10/17/2014	1-Week	Since 1/1/14	1-Year	5-Year	10-Year
Standard & Poor's 500	-1.02%	2.08%	8.86%	14.69%	7.03%
DOW	-0.99%	-1.18%	6.56%	12.77%	6.49%
NASDAQ	-0.42%	1.96%	10.23%	19.49%	12.28%
U.S. Corporate Bond Index	0.30%	4.33%	3.85%	2.37%	1.04%
International	-0.66%	-9.30%	-6.78%	1.84%	2.67%
Data as 10/17/2014	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.02%	0.05%	0.11%	1.44%	2.22%

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:

Jobless claims plummet to 14-year low. Applications for new unemployment benefits unexpectedly fell to the lowest level since April 2000 as employers trimmed fewer jobs. Although this may be a blip, it's a positive sign that businesses are boosting payrolls in the face of global uncertainty.¹¹

Oil prices bounce back from four-year low. Brent crude oil prices moved above \$86/barrel as investors speculated on oversold market conditions. Oil prices have largely moved on expectations of shifts in supply and demand rather than actually observed conditions, which may cause prices to move upward again, though changing fundamentals may keep oil prices low.¹²

Mortgage rates fall, spark refi mini-boom. Mortgage rates dropped below 4% last week, falling to their lowest level since June 2013. The drop has spurred a boom in refinancing as homeowners scramble to take advantage of lower rates.¹³

Mixed retail sales data leaves analysts guessing. Slow retail sales numbers and weak earnings reports from big retailers contrast with the optimistic forecasts of industry analysts, who are predicting strong holiday sales growth. It's a situation where macroeconomic data supports strength while the microeconomic numbers from individual firms paint a weaker picture.¹⁴

QUOTE OF THE WEEK



"Teach self-denial, and make its practice pleasurable, and you create for the world a destiny more sublime than ever issued from the brain of the wildest dreamer."

- Sir Walter Scott.

RECIPE OF THE WEEK



Pumpkin Spice Smoothie



Add some fall spice to this delicious, healthful smoothie!

Ingredients:

Makes 1 smoothie

1/2 cup ice
1 whole frozen banana, peeled and chopped into chunks
1/2 cup whole milk or almond milk
1/3 cup pure pumpkin puree
1 tablespoon maple syrup
1/4 tsp vanilla
pinch cinnamon
pinch of ground nutmeg and/or allspice
(Optional: use preground pumpkin pie spice mix)

Directions:

1. Add the ice, milk, banana, pumpkin puree, maple syrup, and spices to a blender.

2. Blend at high speed until smooth and frothy.
3. Serve topped with a sprinkle of cinnamon.

Recipe adapted from Sarah Copeland | RealSimple.com¹⁵



Help Your Community, Become a Tax Volunteer

If you have some free time and want to pitch in and help out in your community, think about becoming a tax volunteer. The Volunteer Income Tax Assistance and Tax Counseling for the Elderly programs need volunteers for next year's tax season. Volunteers help prepare tax returns for low income and elderly taxpayers. Here's what you should know:

- Volunteer hours are flexible and volunteers usually spend about three to five hours each week between January and April helping out.
- Volunteer sites are available in communities around the country and are usually in neighborhood centers, libraries, schools, shopping malls, and other similar places.
- You can request to work specifically with military families and help those who serve our country.
- The IRS provides specialized training and materials and will teach you how to prepare basic tax returns.

To learn more about volunteering, contact our office or visit [IRS.gov](https://www.irs.gov) and type "tax volunteer" in the search box.

Tip courtesy of [IRS.gov](https://www.irs.gov)¹⁶



Drill for Center Contact

One of the fundamentals to hitting better and more consistent shots is making solid contact with the precise center of the ball. How you hit the ball will affect the spin, launch angle, distance, curve, and path of the ball. It can also affect your perception of your swing; that is to say, off-center contact can lead you to believe you have other problems with your swing. In order to be a great ballstriker you need to have the ability to hit the ball in the exact center of the face.

Here's a great drill that will help: Next time you're at the course, take along two extra balls and a permanent or dry erase marker. If you're using range balls, definitely use the dry erase marker so that you won't permanently mark it up.

Using your marker, draw a big dot on the ball so that you can see where you're striking the ball each time. If you find that you're hitting the ball too much on the toe or heel of the ball, you can use the following drill.

If you're hitting too much ahead of the dot, set up two balls in a line away from you, with the dot ball being the one farthest from you. Often, the cause of toeing the ball is striking with your arms too close to your body. Tee up to the closer ball but strike the dotted ball in order to help yourself feel the right extension in your arms.

If you have the opposite problem (tending to heel the ball) perform the same drill but place the dotted ball closer to you and tee up on the farther ball.

Tip courtesy of Justin Klemballa, PGA | Golf Tips Mag¹⁷



Toss These Common Household Items

- **Old nonstick pans:** Pre-2006 or scratched pans may contain harmful chemicals in the pan lining. Some manufacturers take old pans when you purchase new ones. Otherwise, check with your local trash collection authority for information on where to take discarded cookware.
- **Old soup cans:** Some soup cans contain BPA in their plastic lining, a chemical that has been linked to cancer and other diseases in lab animals.
- **Your toothbrush:** If your toothbrush is more than a few months old, it may be time to replace it. Toothbrushes can collect germs in frayed bristles so the American Dental Association recommends regular replacement.
- **Old vitamins:** Expired or improperly stored vitamins will lose their efficacy over time. Pill bottles should always be stored in cool, dry places.

Tip courtesy of AARP¹⁸



Switch to High Efficiency Outdoor Lighting

A standard 100-watt outdoor floodlight can cost you \$40 in electricity a year when run for about six hours a day. Worse, it can produce more than 400 pounds of CO₂, which really adds to your household's environmental footprint. When it's time to replace your outdoor lights, consider opting for compact-fluorescent versions. They are equally bright and use much less energy. You may also want to switch from always-on lights to motion sensor-activated versions on nonessential lights. You can find modestly priced screw-in motion sensor lights at your local hardware store. To light your way to the driveway or through your garden, replace halogen bulbs with solar-powered LED lights.

Tip courtesy of HGTV¹⁹

Share the Wealth of Knowledge!

Please share this market update with family, friends, or colleagues.

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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Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

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² <http://www.usatoday.com/story/money/markets/2014/02/04/stock-pullbacks-as-guide/5198999/>

³ <http://www.businessinsider.com/history-of-10-corrections-2013-12#ixzz2tVfjXyil>,
<http://money.usnews.com/money/blogs/the-smarter-mutual-fund-investor/2014/02/05/what-to-do-about-the-correction-in-stocks>

⁴ <http://www.cnbc.com/id/102090443>

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<https://www.google.com/finance?chdnp=1&chdd=0&chds=0&chdv=1&chvs=Linear&chdeh=0&chfdeh=0&chdet=1411156800000&chddm=168912&chls=IntervalBasedLine&q=INDEXSP:.INX&ntsp=1&ei=DyJBVJjsA86q8ga534Aw>

⁶ <http://www.cnbc.com/id/102097314>

⁷ <http://www.usatoday.com/story/money/markets/2014/02/04/stock-pullbacks-as-guide/5198999/>

⁸ S&P 500 performance between 9/19/14-10/17/14

<https://www.google.com/finance?chdnp=1&chdd=0&chds=0&chdv=1&chvs=Linear&chdeh=0&chfdeh=0&chdet=1413726843067&chddm=8602&chls=IntervalBasedLine&q=INDEXSP:.INX&ntsp=1&ei=cMJDVKD4DIfn8Qbk64HADQ>

⁹ <http://blog.stocktradersalmanac.com/post/Average-SPY-Correction-Sheds-142-in-135-Days>

¹⁰ S&P 500 performance as of 10/17/14 and between 10/21/13-10/7/14

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¹¹ <http://www.bloomberg.com/news/2014-10-16/jobless-claims-in-u-s-unexpectedly-decrease-to-14-year-low.html>

¹² <http://www.cnbc.com/id/102095897>

¹³ <http://www.cnbc.com/id/102088058>

¹⁴ <http://www.cnbc.com/id/102097448>

¹⁵ <http://www.realsimple.com/food-recipes/browse-all-recipes/spiced-pumpkin-smoothie>

¹⁶ <http://www.irs.gov/uac/Newsroom/Seven-Good-Reasons-Why-You-Should-Become-a-Tax-Volunteer>

¹⁷ <http://www.golftipsmag.com/instruction/iron-play/quick-tips/dot-your-impact.html#.VEOkqTF9t8>

¹⁸ <http://www.aarp.org/health/healthy-living/info-2014/more-things-to-throw-out-photo.html#slide8>

¹⁹ <http://www.hgtv.com/homekeeping/10-tips-for-green-living/index.html>