
What Will the Fed Do Gradually?

Weekly Update – March 23, 2015

Markets finally snapped their three-week losing streak and rebounded as investors bought the dip and rallied after a Fed meeting. For the week, the S&P 500 gained 2.66%, the Dow rose 2.13%, and the NASDAQ added 3.17%.¹

The Federal Reserve Open Market Committee met last week and issued a statement that supports future interest rate hikes. Though rates won't come up at the next meeting in April, a June hike is possible if the economic tea leaves show continued improvement.²

What could an interest rate hike mean for markets? While we can't predict the future, we can look backwards to see what hints history can provide. Back in June 2013, then Fed Chairman Ben Bernanke started talking about the need to gradually trim back bond-buying operations. This "taper talk" led to a brief selloff of 5% as jittery investors started worrying about how the economic recovery would survive without the Fed's easy money.³

What's happened since then? The Fed started tapering (wrapping up in October 2014), the unemployment rate has continued to fall, and the economy continues to expand. Since the day in 2013 that Bernanke announced his tapering intentions, the S&P 500 has gained 29.41% and has reached multiple all-time highs along the way.⁴

Right now, investors are experiencing similar rate hike jitters as they adjust to the new reality of higher interest rates. While we don't know how soon the Fed will start hiking rates, we do know that they'll do it in a gradual way. Will interest rate hikes torpedo the economic recovery? No. Will they affect short-term market performance? Probably.

We can't control market performance. All we can do is focus on your personal goals, keep an eye on the overall environment, and stay flexible and on the lookout for opportunities that arise.

As we approach the end of the quarter, we can expect more market volatility as investors weigh the effects of another cold winter on economic growth and corporate earnings. Analysts will also be waiting for Friday's final estimate of fourth quarter 2014 economic growth as well as follow-up comments from Fed economists who might give further insight into the timing of rate hikes.

ECONOMIC CALENDAR:

Monday: Existing Home Sales

Tuesday: Consumer Price Index, PMI Manufacturing Index Flash, New Home Sales

Wednesday: Durable Goods Orders, EIA Petroleum Status Report

Thursday: Jobless Claims

Friday: GDP, Consumer Sentiment

Data as of 3/20/2015	1-Week	Since 1/1/15	1-Year	5-Year	10-Year
Standard & Poor's 500	2.66%	2.39%	12.61%	16.35%	7.72%
DOW	2.13%	1.71%	11.00%	13.75%	7.05%
NASDAQ	3.17%	6.13%	16.37%	22.34%	15.03%
U.S. Corporate Bond Index	1.04%	1.42%	4.40%	2.37%	1.37%
International	3.94%	6.33%	1.25%	3.72%	2.03%
Data as 3/20/2015	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.00%	0.11%	0.24%	1.42%	1.93%

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 hold steady. The number of Americans filing claims for unemployment benefits edged up slightly to 291,000 last week. The four-week moving average, a less volatile measure, increased to 304,750, dropping 7.5% over the last year.⁵

Foreclosures fall to lowest rate since 2006. The number of properties going into foreclosure fell in February to levels not seen since before the housing crisis. Since 2006 marked the peak of the housing bubble, the low in foreclosures may be an important milestone for the housing market.⁶

Homebuilder confidence dips in February. A measure of optimism among U.S. builders fell unexpectedly last month as construction firms worried about industry issues. However, builders are still broadly confident about housing market gains.⁷

Manufacturing growth slows. Though overall U.S. industrial production increased in February due to increased utility output during the cold winter, manufacturing gains have slowed over the last six months. A strong U.S. dollar may be contributing to falling overseas demand.⁸

QUOTE OF THE WEEK



"It is not necessary for all men to be great in action. The greatest and sublimest power is often simple patience."

– Horace Bushnell

RECIPE OF THE WEEK



Colorful Beef Kebabs



Use sirloin or another grilling cut for fast, tender kebabs.

Serves 4

Ingredients:

- 1 1/2 pound sirloin steak, cut into 1 1/2-inch slices
- 2 red bell peppers, membrane & seeds removed, cut into 1 1/2-inch slices
- 1 red onion, sliced into 1 1/2-inch wedges
- 1 tablespoon olive oil
- 2 teaspoons ground coriander
- Kosher salt and black pepper
- 1/2 cup plain low fat yogurt
- 2 tablespoons lemon juice
- 4 pitas, warmed, for serving
- 1/4 cup fresh mint or other fresh herb
- 4 bamboo or metal skewers

Tabasco, Sriracha, or other hot sauce

Directions:

1. Preheat your oven's broiler or set up your grill for medium-high heat.
2. Toss the beef, bell pepper, and onion with the coriander and olive oil. Sprinkle with a pinch of salt and black pepper.
3. Thread the meat, bell peppers, and onions onto skewers, alternating as necessary. Grill or broil the skewers on all sides until cooked through and slightly charred on the edges.
4. Meanwhile, whisk the yogurt and lemon juice together with additional black pepper.
5. Remove the meat and vegetables from the kebabs and serve inside the warmed pita. Top with the fresh herbs, yogurt sauce, and hot sauce.

Recipe adapted from Dawn Perry | RealSimple.com⁹



Take Advantage of The Child Adoption Credit

If you incurred adoption expenses in 2014, you may be eligible to claim some of those expenses on your tax return. Here's what you need to know:

- If your employer gave financial assistance to support the adoption, you may be able to exclude some of your income from tax.
- The maximum adoption tax credit and exclusion for 2014 is \$13,190 per child.
- If the credit is more than what you owe in taxes, you can carry it forward for up to five years.
- An eligible child must be under age 18, though this rule doesn't apply to adults who are physically or mentally unable to care for themselves.
- For expenses to qualify for the credit, they must be "reasonable and necessary" and be directly related to the adoption. Typically, they include adoption fees, court costs, attorney fees, and travel expenses.

For more information about credits and deductions, visit IRS.gov or speak with a qualified tax professional.

Tip courtesy of IRS.gov¹⁰



Dial in Your Lead Hand On Short Putts

It's embarrassing to choke on a short putt, but it can happen when there's a breakdown in control with your lead hand. Your lead hand controls the clubface and poor control at impact can send the ball off on the wrong line.

To fix this problem, set up to a short putt and practice sinking balls using just your left (or off) hand. You'll know you've dialed in your control when you can easily make one-handed putts.

Tip courtesy of Tom Stickney, PGA | Golf Tips Mag¹¹



Ditch the Diet Soda

Many Americans have switched from regular to diet sodas to cut calories and reduce their sugar intake. However, research shows that artificial sweeteners can cause sugar cravings and increase health problems. Another study linked diet sodas to glucose intolerance and a higher risk of Type 2 diabetes. Instead of replacing soda with diet soda, try eliminating or reducing your soda intake altogether.

Tip courtesy of AARP¹²



Switch To Cold Water Washing

Did you know that 90% of the energy consumed in washing a load of laundry goes to heating up the water? Whenever possible, wash your clothes using cold water instead of warm or hot water. You'll save money on your energy bill and may even find that your clothes last longer. Most detergents work well in cold water and you can also buy special formulations designed specifically for use with cold water.

Tip courtesy of AARP¹³

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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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¹ <http://goo.gl/ZCdiha>

² <http://www.cnbc.com/id/102513036>

³ <http://www.ftportfolios.com/Commentary/EconomicResearch/2015/3/16/resist-the-rate-hike-huff>

⁴ S&P 500 performance between 6/19/2013 and 3/20/2015

<http://goo.gl/ku1mLz>

⁵ <http://www.foxbusiness.com/economy-policy/2015/03/19/weekly-jobless-claims-rise-less-than-expected/>

⁶ <http://www.cnbc.com/id/102518584>

⁷ <http://www.foxbusiness.com/economy-policy/2015/03/16/homebuilder-sentiment-unexpectedly-slips-in-march/>

⁸ <http://www.foxbusiness.com/economy-policy/2015/03/16/industrial-production-edged-up-in-february-but-factory-output-down-for-third/>

⁹ <http://www.realsimple.com/food-recipes/browse-all-recipes/spiced-beef-kebabs>

¹⁰ <http://www.irs.gov/uac/Top-Ten-Facts-about-Adoption-Tax-Benefits>

¹¹ https://www.youtube.com/watch?v=IBI8Ki-0HNw&list=UUPLAYER_GolfTipsMag&t=39

¹² <http://blog.aarp.org/2015/03/18/pants-too-tight-could-be-that-diet-soda/>

¹³ <http://www.aarp.org/home-family/your-home/info-2014/save-money-go-green.html>