THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 closed out this week at 2.259.53, up 67.77 points or 3.30% for the week and 95 points or 4.39% for the trailing month. Better, the Index is up 12.28% from this time last year and 10.55% year to date. The Index is about three-tenths of a point below its record high.

It is worth noting that a nearly a third of the gain in the S&P 500 has occurred in this last week. There is a lesson in those numbers. During the year the Index has been down as much as 20% and then for most of the year, did very little beside wandering up and down in a narrow range. Markets and market-based investments do that. They do not move consistently and often jump around in directions that are contrary to their long-term trend. History teaches that the way to deal with that is to be patient and have faith that the long-term pattern is still there.

The ten-year U.S. Treasury bond yield finished the week at 2.475% continuing rise from its July 6 low of 1.232%. This is the highest interest rates have been since June 2015. The Bloomberg Barclays US Treasury 10 Yr Term Index is down 5.96% so far this quarter, although it still has a positive year-to-date gain of 0.590%.

The Euro continued to hover at about $1.05, U.S. oil is at $51.48 per barrel, and gold is $1,164 per ounce. Oil seems to have found a comfortable level far about 60% below its price four years ago while gold is down about 35% from its high four years ago. The S&P 500 Index is up about 25.5% over that same period.

Over the past several years there no small number of stories and panicked warnings that the dollar and the U.S. stock market were about to collapse, oil was either going to go to $200 per barrel or drop to $20 per barrel, and that gold was destined to rise to $2,000 per ounce. Unfortunately, there were those who took those warnings to heart and invested accordingly. History and economics suggest that commodities are generally a poor long-term investment and the U.S. economy is the most productive in the world. The productivity of our economy is reflected in the value of our publicly traded corporations over the long-term. In those numbers we quoted above is the evidence as to which of all those investment categories tends to have the highest long-term returns.

The Economy

Economists surveyed by the Wall Street Journal have indicated a steady reduction in the chances of our having a recession in the next year. That view is consistent with the Index of Leading Indicators. Still there are things to worry about if you are interested in doing so.

Italy held a referendum on streamlining its governmental processes and it failed. As a result, the Prime Minister resigned and it may be that the head of the Five-Star Party may eventually be the new leader. As the Five-Star Party has taken the position that Italy would be better off outside the Euro Zone and even outside the European Union, things continue to look difficult in Europe. Because of that uncertainty, one of Italy's larger banks, the Monte dei Paschi may become insolvent. No one knows what ripple effects the failure of a large Italian bank will create, but we may be about to find out.

The Federal Reserve Board's Open Market Committee meets on December 14, and for once there seems to be a full consensus of just about everyone that it will raise short-term bank rates by 0.25%, almost exactly one year after its first raise in years. If so, then short-term rates will be at 0.5-0.75%, a rate that would have been considered unbelievably low a decade ago, but today seems quite high! A year ago when they first budged from 0%, unemployment was 5%. Today it is 4.6%. It is taking longer and longer for the average job to be filled and wages are headed upward at about 4% per year. Year over year inflation is averaging 1.7%.

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What all of that means is the economy is returning to something close to "normal" and the time for artificial support from the Fed is headed into the past. That is good news for investors.

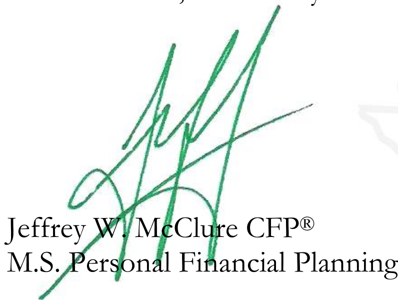
There is another bit of news that may indicate some future problems. Two units of Penn Treaty American Corp., an insurance holding company in Pennsylvania have announced they will be liquidated by their state insurance board early next year. Those units primarily sold long-term care policies to individuals. In state filings their liabilities are estimated to be around $4 billion while their assets are only $600 million.

In a rare industry disclosure the court filings reveal the assumptions the insurance companies made in 2000 for the ensuing twenty years as well as what actually happened. First, the companies assumed they would see an average annual return of 7% on their investment portfolios. What they got was about 3%. They also assumed the life expectancy of a 65 year-old male would be about 18 years, while it worked out to be closer to 22 years.

The issue is that the two insurance units were not the only companies that worked from those assumptions. In fact, their assumptions as the 21st century began were probably about the same as every other insurance company and their results too were probably similar. The cause of their demise was that they didn't have the deep pockets of a larger, more diversified parent company to draw on, and long-term care policies tend to pay out sooner than other kinds of policies.

The larger insurance companies have been merging and selling off business units to stay afloat, hoping that at some point their portfolio returns will rise enough to cover the guarantees they made twenty years ago. If they don't more companies will disclose their bad bets as the years go by. We believe that trusting any significant part of your wealth to a single company in a "guaranteed" position for a multi-decade time period is potentially dangerous. Only time will tell if we are right.

Until next week, we remain your faithful servants,



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