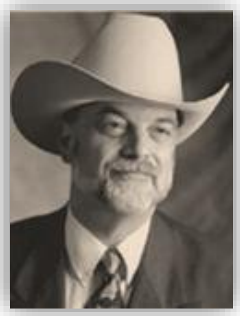

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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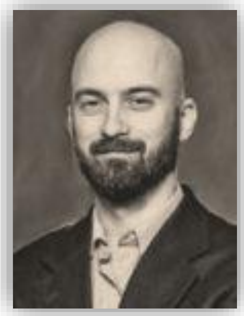

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TPWC Market and Economic Update

The Markets

The equity markets, represented by the S&P 500 Stock Index (SPX) eked out a small gain for the week of 0.35%, and is up 2.68% for one month, 7.72% for three months and over 17% for one year to close at 2651.50. Don't get too used to those high returns. Ten years ago, the SPX was at 1478 and while the over 1,000-point rise since then is big, that average annual rate of return works out to only 5.77%. If we look out to 15 years, the average annual compounded price return is 7.33%.

Unless you like the idea of a market plunge taking you into a loss that can last for a decade or more, a pure equity portfolio is not a good idea. So, let's assume a hypothetical portfolio composed of 60% SPX, 30% very low-cost intermediate-term U.S. Treasury bond fund, and 10% in cash and with no commissions (loads). Your portfolio's average annual rate of return for ten years would have been 4.57%. If we go back to 2002, 15 years ago, and start the clock on that portfolio, the average is 4.56% per year. That 15-year return is close to the very long-term index averages going back over a century.

Was it possible to get a higher rate of return? Historically, the data suggests that the answer may be "yes," but there are trade-offs. First, one must accept that to obtain a higher historical rate of return, one must accept bigger market declines. It also takes some serious analysis and discipline. A bit of market economics education might help too, but high returns tend to be concentrated in short time-periods. Those time periods are very difficult to predict and being part of them involves tolerating sometimes long periods of low or negative returns in order to be there when the good times come. We are in the good times right now, but history suggests we not depend on them continuing.

A word about Bitcoin. Here we see an investment frenzy (bubble). Bitcoin has effectively zero intrinsic value, although each "coin" is a unique item. The reason the price soars is simply that a lot of people and money are buying those unique numbers and few to no people are selling. As to its value as a currency, all reports indicate that it is not being used for that purpose. Rather it is a purely speculative item. We hate to make predictions but feel quite confident a crash is coming, and it may be even more impressive than the rise.

The Economy

The Labor Department reported payrolls rose 228,000 in November. That same report added 3,000 more new jobs filled in September and October. The unemployment rate remained at 4.1%, the lowest percentage of the labor force looking for work since December of 2000. Unlike that time 17 years ago, wage increases are only slightly above the inflation rate, at 2.5% from this time last year.
November's increase in jobs marks 86 consecutive months in which employers have hired more workers than they laid off.

Notable in the employment report was the fact that durable goods manufacturing and construction were the third and fourth highest gaining areas. Each dollar expended in those areas by the prime agent, a factory or construction company, tends to cause other economic activity as suppliers need to spend money to replace the items used and the end user of their products tend to buy other things to go with the major purchase, so GDP tends to grow faster when there is more activity in things like construction and durable goods manufacturing. Employers in those areas require skilled labor and thus often are making a substantial investment when they hire someone. Again, generally speaking, hiring at this level in those two areas is not a reaction to a business demand as much as it is an investment in anticipation of greater demand. In short, capital-intensive, long-lead-time companies were among the biggest hirers in this report and they only hire when they have contracts on the books that will keep the new workers busy for many months to come. That bodes well for our economy well into 2018.

In a different, but equally positive area, according to the Federal Reserve's *Flow of Funds* report, the total net worth of U.S. households broke another quarterly record in the third quarter, climbing to ***$96.939 trillion***. In the third quarter alone household net worth rose $1.742 trillion. Stock market gains contributed $1.1 trillion and real estate added $411 billion. Household savings account balances grew by $83.5 billion.

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®