THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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Greetings from The Personal Wealth Coach®

Fickle Markets

Markets can be, and usually are, fickle in the short-term, but much like a barometer in the long-term. Today, the Labor Department announced that the unemployment rate (U1) has declined to 5.1%, the lowest it has been since 2008. If one digs deeply enough for bad news in that announcement, it could be noted that the reported number of jobs created by employers in August was "only" 173,000. Even that "bad" news is tempered by the report that the average monthly number of new jobs created in the US economy in the last three months has averaged 221,000. Then too, there is the fact that initial reports for August tend to be the least accurate of any month, with an historical average of several tens of thousands of additional jobs added as slow data trickles in.

Of course, in the face of the fact that roughly a couple of hundred thousand more people are working now in the United States than there were a month ago, and those people will be earning money to buy things, pay taxes, and generally create money and wealth, the S&P 500 Stock Index (S&P) dropped 1.5%. The day before, on Thursday, it rose 2.53%, but that was not worthy of much in the way of headlines.

We must dig even deeper to find the negative news that caused the S&P to drop 3.4% for the week. The jobs report revealed that average hourly earnings rose 0.3% for the month, up 2.2% for the year. Hours worked also increased a bit. Those numbers again suggest that there will be more money earned in the next year or so and most of that money will be spent on things that corporations sell, thereby creating more earnings and wealth.

So what scared the markets? Some of you may remember the term "taper tantrum" emerging a few years ago in June of 2013. The horrific fear that gripped the markets then, causing a decline not much different from this one, was that the Federal Reserve Board (the Fed) would start reducing the dollar value of bonds it was purchasing each month on the open market. That action, widely referred to as "tapering" was feared, as it would surely plunge the world back into recession. The S&P 500 stood at 1,573 on June 24, 2013. Today it closed at 1,921: 22% higher. During the period following the taper tantrum, the Fed did indeed taper its bond buying (commonly referred to as "printing money"), and the economy and corporate earnings have steadily improved.

The traders interviewed by the various news sources I follow seem to be in a consensus that they are afraid the Federal Reserve will increase the rate it charges banks for overnight loans from 0% to 0.25%, thereby upsetting the economy and plunging the world into recession. For any who agree with that assessment, please see last week's missive where I cited the U.S. Leading Economic Indicators Index (LEI), which is forecasting moderate economic growth through the rest of the year. Note again that while the LEI can from time to time give us a false alarm about a pending recession, so far in its decades of existence, it has never failed to warn of one that actually is coming.

So what is really to blame? As I wrote last week, the real culprit is the dreaded summer vacation. Traders tend to take their vacations late in the summer and into early fall (most apparently are not parents of school-aged children). On Friday as the S&P fell 1.5%, the trading volume on the New York Stock Exchange, Nasdaq, and NYSE MKT, was just below 6 billion shares, or about 22% *below* its 30-day moving average. In a serious sell-off, the volume is *higher* than normal, not *lower.* The trading volume in late 2008 and early 2009 as the market slid into a real panic, averaged over 12 billion shares per day. 6 billion shares is the normal volume when not much of any significance is happening.

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Just for the record, the S&P 500 Stock index is now down 9.85% from its all-time high last April, so technically we are not in a correction, or more accurately, we had a correction last week that lasted about two days.

Something that Broke

We have been warning both on our radio show and in our letters that exchange traded funds (ETFs) are far more sophisticated, and potentially dangerous, than their advocates want us to believe. For those not familiar with ETFs, they are derivatives that purport to track a basket of securities, enabling an investor to purchase, for example, a representative portion of all the shares in an index, or class of commodity. A somewhat newer version includes actively traded ETFs that claim to represent a portfolio of managed stocks, bonds, or other securities.

The supposed advantage of ETFs over simple mutual funds, is that they can theoretically be traded immediately rather than waiting for the end of the day and the market close before sells and buys are processed. That "advantage" would allow, for example, a person who saw a market decline in the making to bail out before the worst hit. The problem that occurred in the last couple of weeks is that some ETFs dropped as much as 30% below the value of the underlying portfolio or index. In other words, panicked sellers who attempted to bail out of the market were paid as much as 30% less than the real value of the index they thought they were tracking.

Attempts to high-speed trade in derivatives is a practice that should be left to those who can afford to lose a lot of money. ETFs may have their place in a long-term portfolio, but some of them are inherently unstable and others are opaque, to say the least. The investors who got hurt, and sometimes quite badly, were those who attempted to jump out of the market during last week's downturn. Some were reportedly shocked to discover that while the market dropped about 5%, their sale price was down as much as 35%. Joining in a panic, no matter what the supposed cause, is a bad idea.

Emergency Procedures

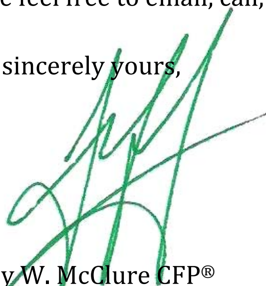
Here at The Personal Wealth Coach® we are implementing a relatively minor emergency procedure triggered by a decline in the moving averages of the stock market. In accounts held at Pershing where we have monthly scheduled sales of equity mutual funds set up to replenish cash positions, we are in the process of temporarily halting those sales. In other words, we are creating a situation where those taking monthly income are doing so from their cash and short-term bond positions only, so as to avoid selling those asset classes that are significantly lower than they have been.

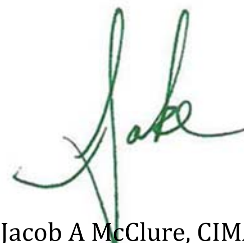
Presuming, as I suspect, that the market, and the appreciation asset classes in your portfolios, recover by January, we will resume those monthly sales, and over the next year, replenish your cash reserves. Note that this procedure does not apply to Jefferson National accounts. Those accounts have produced a greater gain in the recent past, and a significant portion of the monthly withdrawals is already coming from the more stable asset-protection side of the portfolio. If the market slides into a full-fledged correction, and there are indicators in the general economy that a longer-term decline is in the making, we will take action there.

Meanwhile, we are on the job. I, personally, am in Estes Park, CO, writing this letter at 5:00PM. Unlike the traders on vacation, we, for better or worse, tend to be attentive to our business no matter where we are!

Please feel free to email, call, or write with your concerns and comments. They are more than welcome, and we love them!

Most sincerely yours,





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