THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

Jeffrey W McClure CFP® *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com jake@tpwc.com

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TPWC Market and Economic Update

The Markets

Stocks

The S&P 500 Stock Index (SPX) closed out this week at 2129.90, up 1.33% from last week's close. That puts it up 16.45% from mid-February but still down 0.04% from its all-time high last year. It's up 2.64% year-to-date, but pretty close to where it was last year at this time. The Index is up 1.48% so far this month alone. The adage of "Sell in May and go away." appears to have been a pretty bad guide for 2016.

Earlier this year we have seen significant selling each time the SPX approached last year's high and the Dow Jones Industrial Average climbed much above 18,000. As the Dow closed today at 18,146.74, with heavy buying, there is a glimmer of hope that we are beyond that type of behavior. We are entering earnings season this week with the first of the S&P 500 companies reporting. If the earnings come in above analysts' estimates, this stock rally (in our opinion) has a lot of room to run.

Bonds

The bond benchmark, the U.S. 10-Year Treasury Note, did hit a record with its annual yield falling to 1.366%. Ben Bernanke, former Federal Reserve Chairman, confirmed that the low rate on Treasuries was a result of the overwhelming purchases from outside the United States rather than from domestic pessimism about the U.S. economy.

Currencies

The Euro fell to just over $1.10 today, while the British Pound Sterling dropped to $1.30, and the Japanese Yen declined to 100.55 to the dollar. In those amazingly low numbers is the evidence that across the world other major currencies are being sold, and dollars are being bought.

It is pretty clearly a good time to take a vacation to Britain, Europe, or Japan, or for that matter, to take out a loan to buy a long-term capital item like a house or a car. The dollar is king and interest rates are in the cellar.

The Economy

Employment Report

The big economic news this week had nothing to do with the gradually slipping United Kingdom's economy following the Brexit vote, but rather the U.S. employment report.

U.S. employers hired 287,000 more workers than were laid off in June. At the same time, the unemployment rate rose from 4.7% to 4.9%. In other words, a lot of people were hired and a lot more people decided to enter the job market and start looking for jobs. A goodly part of that decision may have come from the fact that the average private sector employee has seen an increase in hourly pay of 2.6% so far this year. The message is clear: if businesses offer to pay more money, more people will sign up for work. The Atlanta Federal Reserve's wage tracker indicates that average wages have risen 5% over the last 12 months.

One of the significant distortions in the wage reporting system right now is that highly paid Baby Boomers are retiring, and a lot of new hires are starting in companies. That changeover can make it appear that wages are stagnant or even falling. The Atlanta Fed's calculations attempt to eliminate that distortion and in doing so reveal that people who have been in a job more than a year are getting outsized pay increases as they finish their training period.

At the same time, both anecdotal information we are hearing and the official Labor Department numbers indicate that skilled workers are in short supply. We heard today that auto mechanics are working 65 hour weeks in Austin, and there is a critical

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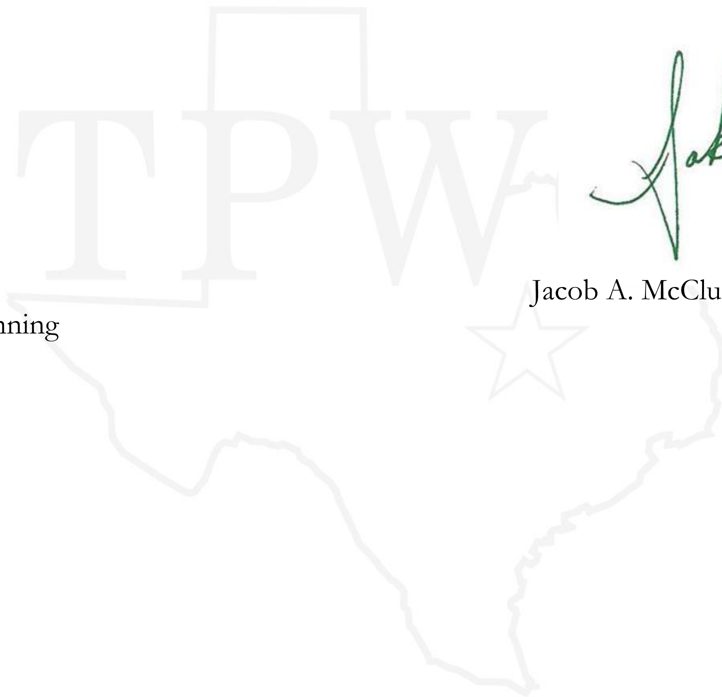
shortage of said mechanics. If the shops want to keep them, they will need to pay them more. More working people with higher wages translates into greater earnings for corporations. It is just a matter of waiting for the numbers to filter through the system.

<u>The Brexit</u>

As we predicted, there is a growing realization that the departure of the U.K. from the European Union will be a very unpleasant economic event for those in Great Britain and threatens to take the rest of the EU into recession. Its effect on the United States economy though will likely be minimal, and conceivably could be positive.

All that could be moot if we follow Britain down the irrational isolationist road. The next known socioeconomic issue that could derail what we believe is a potentially historic bull market would be a return to isolationism, trade wars, and cutting off of new and old trade agreements with our historic allies. We have a great deal of optimism that will not happen despite the campaign rhetoric, but there it is. If we continue to integrate economically with the rest of the world, history tells us we can expect growing prosperity and a healthy economy. Alternatively, if we elect to throw up barriers to trade, as have the British, things will probably not go well for us.

Until next week, we remain your faithful servants,



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

Jacob A. McClure, CIMA®

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