THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index ("SPX") ended this shortened week at 2,328.95, down 1.21%, putting it down 2.2% over the past month. It remains up just over 4% year-to-date, and has retained a reasonable gain of 11.82% from a year ago.

As usual, we will make a valiant effort to put that in perspective. The Index now has an average annual rate of return for three years of 7.49%. It is about 27% higher than it was in February of 2016 and 9.3% higher than the high it hit in May of 2015, almost two years ago. There is what we believe to be some clear lessons in its performance over the past three years. On February 11 of last year, 2016, if one measured the SPX from three years ago today, way back in 2014, the return was almost exactly *zero*. If one starts at any point between April 2014 and mid-February of 2016, the total return will be negative, and in some periods the return approached a -20%!

From our perspective, getting an average annual return of almost 7.5% (plus dividends) is delightful in this abnormally low interest-rate environment, but there is a price to pay for such things. In this case, the cost is being willing to accept a zero-to-negative return for multiple years before seeing that desired return. The second observation available to the astute observer is that if one were taking monthly withdrawals from, for example, an S&P 500 Index fund over that period, that long wait for a positive return would have been longer, and the total return would have been lower.

The lesson learned from that, again from our perspective, is that being well diversified and able to avoid having to draw from one's equity (stock-market) assets during "down" periods, has the potential to make life in retirement somewhat less "exciting" and, at least in many cases, may produce a better overall long-term return.

Returning to market numbers, the 10-year U.S. Treasury bond closed out at 2.234%. Again, to put this in perspective, the S&P U.S. Treasury Bond 7-10 Year Index trades as "IEF", and IEF was up about 0.92% for the week as interest rates fell, but is down about 1.5% from this time last year. Its total return of 3.32% (including interest) over the trailing three years is more impressive. We are still of the opinion that interest rates are more likely to rise than fall over the next decade or so. As rising interest rates cause bond values to fall, we are cautious and defensive in that area.

Gold

We are going to depart from our usual pattern this week to focus on a hot subject. Gold closed at 1,291, up 0.94%, and since we've been getting a flurry of questions about whether buying gold is a good idea, here is not just our opinion, but the data from which that opinion arises:

Trading actual gold bars is a daunting challenge which even the professionals eschew, so they tend to use either a security that tracks gold prices or do so in the futures market. The ETF that most closely tracks the price of gold is GLD, and it is, in our opinion, a good place to follow the economics of gold buying and selling. Using GLD as our measure, the price of that enticing metal is up 2.67% for one year, but has averaged a **loss of 1.26%** per year for the last three years and is still down about 6% from last summer. The most impressive number we see in GLD's recent history is that over the past five years it has had an average annual rate of return of ***-5.46%.*** That five-year total figure equates to a 25% loss.

Unlike stocks, where there are earnings that, over time, tend to rise and thereby increase the future price of the index, gold has no earnings, and thereby no intrinsic reason to rise. In other words, gold's price is subject to the whims and emotions of buyers and sellers all over the world but also to the laws of supply and demand.

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Based on what we know of "portfolio theory" if one wants to see the likely return of an asset class over the next 30 years, one should look at the inflation-adjusted total return of that asset class over the past thirty years. Unfortunately for someone who bought gold in April of 1987, not counting commissions, a $1,000 hypothetical gold investment in 1987 would result in a real net value today of $1,137 after adjusting for inflation and taxes. That same hypothetical investment in the S&P 500 Index would produce today, again after adjusting for taxes and inflation, $3,506. Those numbers take on a deeper meaning when one considers that for 22 of the last 30 years, that hypothetical gold investment would have been in a loss position. Note here that we are not recommending an investment in an S&P 500 Index Fund. As we point out above, a well-diversified investment portfolio designed around your individual needs and objectives is, in our opinion, the best way to go.

The Economy

Our friends at the Bureau of Labor Statistics released some more labor data this week. The *Job Openings and Labor Turnover Survey* revealed that our national hiring rate was 3.6% while our layoff rate held steady at 1.1%. The changes from last month in both cases were so small as to fall inside the statistical error bands. The jobs available also held fairly steady at 5.7 million. What that means in comprehensible terms is that we are still hiring more than firing, but the acceleration in hiring rates that kicked in during the last months of 2009 appears to have ended.

A second report, this one from the Commerce Department's Bureau of Economic Analysis, revealed that U.S. retail sales fell for the second month in a row. At the same time, all the indices that track consumer and business sentiment remain high. The University of Michigan's consumer sentiment survey reported that consumers have the highest confidence rating about the future is the highest it has been since 2000.

If we were all "rational actors" (an economics term), we would spend a lot more when we announce high optimism and employers would hire more people when they are optimistic. That is not happening this time. Anecdotally, the national surveying firms and we here at The Personal Wealth Coach® are seeing a far more cautious approach than our national attitude would suggest. Why? Both business owners and members of the public are no longer so sure that taxes and regulations from the federal government will decline and spending will increase.

Investors, business leaders, and consumers appear to have taken a "wait and see" attitude, particularly after the healthcare bill failed to pass out of the House of Representatives. Progress on tax reform is, as far as we can see, invisible. New regulations appear to be deferred but not removed. Just as importantly, policy reversals from the White House and Congress seem to be coming daily. What is left is an underlying economy that seems to be improving despite of, not because of, government initiatives.

There's more news, but there is always more news, but there is not always more time!

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
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