THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The S&P 500 (SPX) Index closed out the week at 2476.36 just a few points below its all-time record of 2490.87 set in early August. That places the Index up 1.45% this week, up 10.70 year-to-date, and an amazing 13.69% since this time last year.

Despite hurricane Harvey's damage, West Texas Intermediate oil ended the week at $47.42. That price remains well below the $57 high where it began the year. As the supply issues associated with the refineries restarting surface, there may be some fluctuations, but once again, the news here is that a major hurricane in the Gulf has had no discernable effect on the price of domestic U.S. oil.

Another commodity that has historically spiked with the arrival of major Gulf hurricanes is gold, and while it has generally risen since early July, the advent of Harvey seems to have had no effect. With each drop in the U.S. Dollar, gold has had an apparent rise in value, but that rise is illusory as gold is priced internationally, and the real international price rise variance has remained quite low this year. A purchase of gold appears to have become a bet that the dollar will decline. That condition is rather counterintuitive, in that the lower the dollar goes, the better it is for the U.S. economy as it tends to make our exports less expensive and our GDP to rise. Gold, historically, has been seen as a hedge against a weakening in the U.S. economy but more recently has better-reflected changes in the Indian and Chinese economies.

The ten-year U.S. Treasury note, the benchmark for U.S. rates, ended the week yielding 2.168% after a 2.38% yield in late July and 2.6% in March. The low yield in a growing economy remains a conundrum, but at least the yield is a lot higher than the 1.6% we saw a year ago. Oddly in light of the verbal sparring between our countries, the Chinese government has gone back to buying higher quantities of U.S. Treasuries so that it has again passed Japan as being the largest overseas holder.

The Economy

GDP

The Commerce Department revised the second quarter growth of the U.S. Gross Domestic Product (GDP) to 3% on an annualized basis from its initial estimate of 2.7%. Household expenditures, the largest part of our national economy, grew at a 3.3% rate, up from first quarter's 1.9%. Importantly, business investment grew at 6.9%, hopefully a harbinger of faster growth in the future. General business profits grew in the quarter at an 8.1% rate, again a good sign. As we have written before, the improvement in the rest of the world's economy has caused foreign currencies to rise about 12% against the dollar this year and that has made our exports more price competitive across the world.

Employment

The big news on the employment front is that nothing much happened. Yes, for the month of August we appear to have about 156,000 more people working than last month, but the unemployment percentage was little changed as were the percentage of people who weren't looking for work but would work if asked to do so. As we only need about 100,000 new jobs each month to keep up with the new entries into the jobs market, once again we hired more people than the "break-even" number. That means that people who had left the job market for some reason are returning. At some point, we will run out of those extra new workers. Meanwhile, the numbers continue to show that part of what is holding the economy back is a worker shortage. In order to sustain our traditional 3% GDP growth, we will need either greatly increased productivity, which may come, but not for several years, or more workers. The only apparent way to get the numbers of new workers we need in things like infrastructure and home building is to allow more immigration. That too seems unlikely to happen soon.

Inflation and Wages
Inflation remains not only muted but appears to be declining in the United States. Oddly, that is a concern to economists. At this point in an economic expansion with extremely low unemployment, it would be "normal" to see wages rising and inflation following those raises. Instead, we are seeing wages and inflation remain just above static. This economic recovery and the economic world in which we work has apparently changed.

The DOL Fiduciary Rule – Warning!
Last year the Department of Labor issued a "Fiduciary Rule" that took effect early this year. Political pressure has caused the DOL to defer enforcement of the rule until 2019, but it is still on the books. In essence, the "Rule" requires that a person or organization recommending a rollover from an employer sponsored retirement plan into an IRA, or selling a new IRA investment, act in the IRA owner's best interest, and put that promise in writing. The Rule has met a lot of resistance from the retirement product industry and those who sell its products.

The evidence suggests that in many cases IRA owners were sold a product whose primary virtue was that it paid a much higher commission to the agent than another, possibly better-qualified investment. The DOL rule was intended to prohibit that and instead require that the salesperson recommend only products that were in the IRA owner's best interest. It also required that the salesperson disclose the fees and charges associated with the product in clear, written terms as well as any bonuses or special awards the salesperson might receive for selling that product versus another.

We have received reports that companies and "financial advisors" have been contacting IRA owners with warnings that something bad would happen if they did not take action immediately. Such warnings are false. The reality appears to be that the "financial advisors" are attempting to extract one more set of fees before the enforcement date for the Rule goes into effect. To the best of our knowledge, there is no requirement for an IRA owner to do anything. Don't be fooled.

Until next week, we remain your faithful servants,

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