FINANCIAL
newsletter

Caissa Wealth Strategies

JANUARY

China Woes and the Fed

China Woes

The first week of 2016 opened brutally with the Dow and the S&P having the worst first week of the year ever. China was the main headline for cause with their currency devaluations and market struggles which was much of what we have already experienced in August of 2015. The volatility was mostly caused and exacerbated with the Chinese 'young' market and their improperly aligned circuit breakers.

The Shanghai Stock Exchange has circuit breakers to halt trading at certain points of a down market which is intended to curb downside volatility. However, because the trading was halted so abruptly, panic sellers raced to the market and left no time or room for buyers to get there. Finally on Friday the regulators increased their threshold for the cessation of trade and the buyers did come to the market to stabilize it a bit.

Caissa clients typically have less than 5% allocation to equities in China and emerging markets which has been hit the worst. Our major overweight has been in Large Cap Growth which has been one of the better areas of contribution to returns.

We believe China's future in growth will slow and that the government may start to add to the support of stimulation in the economy but it will take time. Expect volatility to continue here and therefore most emerging markets.

2015… A Down Year and we are NOT used to that.

As you'll see in the chart I provided on page three, all the major indexes ended negative for 2015 – even bonds. If you had any allocation at all to international equities (which we are running about 12-15%) 2015 did not treat you very well. Large Cap Growth and Fixed Income were some of the best categories to be in but fixed income is not providing great yields in the face of the Fed raising interest rates. Even though we cannot get the yields that we would like to see, we still keep a sizable allocation to fixed income for a hedge against equities and a preservation of capital.

The Fed

Ever since the U.S. Federal Reserve ("the Fed") ended its latest quantitative easing program in late 2014, people from all over the world have debated when it should try to increase interest rates. The market became so obsessed that the mere suggestion of an earlier-than-expected September hike caused market volatility to jump in August and helped pushed the S&P 500 down 10 percent in a week.

The arguments and analysis continued until December 16, when the Fed finally raised short-term interest rates for the first time in almost a decade as they see wage pressures mounting for 2016.

The Fed's intention is to have 3-4 more rate hikes in 2016 with a goal of about 3% prime rate by 2018. We think the Fed will take into consideration what the global economy is doing and perhaps pull back on their indicated third hike this year. The March rate hike is still a 50/50 bet.

What do we do?

In December we tax loss harvested many accounts to take the benefit of capital losses while maintaining being in the market. These losses will be valuable to use against the larger than normal capital gain distributions in 2015. These sales will allow us to buy back our managers and perhaps reallocate a little towards asset classes that are less affected in this environment. We will be buying back our managers toward the end of January.

Volatility is here to stay and we expect much more in 2016 but it is not a reason to deviate from our strategic investment plan. -Kelly Olson Pedersen, CFP®

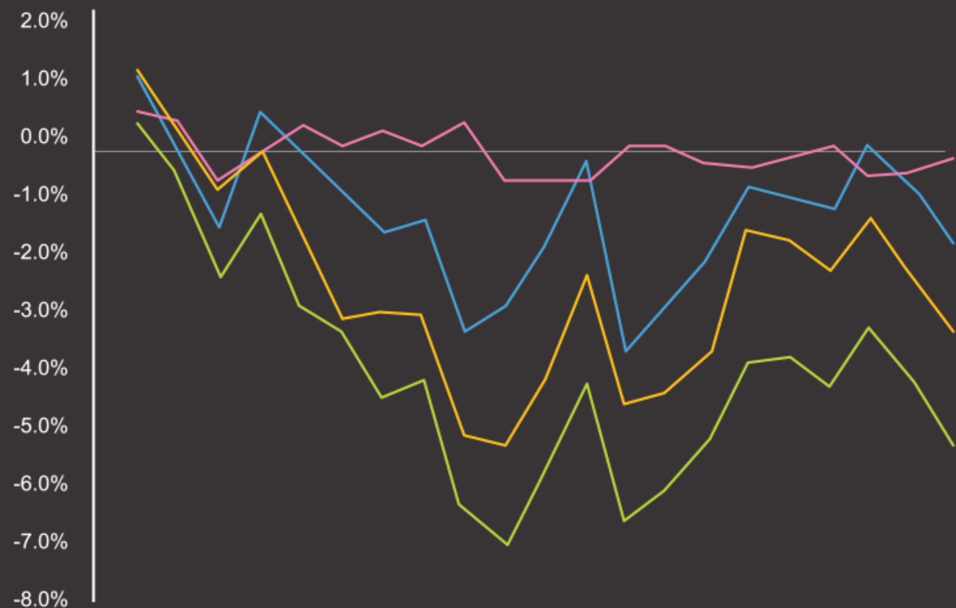
the market at a glance
DECEMBER

U.S. Large Cap
(S&P 500)
2,043.94 (-1.75%) ▼

U.S. Mid/Small
(Russell 2000)
1,135.89 (-5.19%) ▼

Foreign Large
(NYSE International 100)
4792.37 (-3.22%) ▼

Bond Market
(Dow Jones Equal Weight U.S. Issued Corporate Bond Index)
341.40 (-0.35%) ▼



Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

the market in action

- The U.S. Department of Labor revises up a number of third quarter economic statistics from the previous month, including raising annual productivity growth from 1.6 percent to 2.2 percent and annualized GDP growth from 1.5 percent to 2.1 percent.
- Following the birth of their first child, Facebook founder Mark Zuckerberg and his wife announce a plan to donate 99 percent of their Facebook shares to charity during their lives. At the time of the announcement, the shares were worth over $40B, making it one of the largest charitable pledges in history.
- Chemical industry giants Dow Chemical Co. and DuPont agree on a $130B merger. One of the most significant aspects of the merger is the age of the companies; Dow Chemical is nearly 120 years old, while DuPont is over 210 years old—one of America's oldest companies.
- Finland's government starts a proposal to replace its current welfare system with a government-provided monthly income of €800 (around $10,000 annually) for every adult citizen. Despite being untaxed, the guaranteed income system is projected to improve the Finnish government's budget.
- American pharmaceutical company Pfizer Inc. makes plans to acquire Irish competitor Allergan, Inc. and move its corporate headquarters to Ireland. Pfizer is using the move to take advantage of Ireland's low-tax environment and has become one of the largest U.S. companies to emigrate using a "corporate inversion."
- A report from Pew Research Center reveals that the U.S. middle class no longer represents the majority of the country, comprising just under 50 percent of the adult population. The report shows that the middle class has been steadily shrinking since it included 61 percent of people in the 1970s.
- An early MasterCard SpendingPulse™ report shows that holiday retail sales (sales between Thanksgiving and Christmas) rose 7.9 percent from the same time last year. Online sales continued to become increasingly important to retailers, growing 20 percent since last year.

U.S. Large Cap = S&P 500 **U.S. Mid/Small Cap** = Russell 2000 **International Large** = NYSE International 100 **Bond Market** = Dow Jones Equal Weight U.S. Issued Corporate Bond Index

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