



## Volatile Third Quarter

*Comments from Caissa Investment Committee Member, Greg Pierce:*

The rough third quarter in the equity markets was due to a recalibration of expectations about U.S. and Global growth & earnings expectations. The U.S. economy can be categorized as good (not great) and the fear is that the China slowdown, a further collapse in commodity prices and emerging market problems will overwhelm the U.S. This has resulted in a significant increase in volatility of trade in the major markets. Our view is that no matter when the Fed may or may not raise interest rates, it is coming because the economy is continuing its slow and gradual recovery. The key to raising interest rates is the improving unemployment picture. As we push closer to a 5% unemployment number and reach what is traditionally full employment, we would normally start to see wage pressure at that point in the cycle. Wages is one of the largest and most important components of the inflation picture. The Fed will raise rates but it may not be until next year now. We still are focused on the U.S. markets and traditional growth stocks.

We maintain our bullish position on the U.S. equity markets going into the fourth quarter and into 2016. We expect that as interest rates begin to rise that you will see capital flee the fixed income market and find the one area of growth available to them – US equities.

# OCTOBER

The market is trading right in line with its 25 year P/E average of 15.4 times 2016 estimates. With earnings expectations for 2016 between 5-6% growth rates and GDP growth of between 2.5%-3%. Another key factor still is the accumulation of cash on corporate balance sheets which remain at a 25 year high of 30% of the total S&P 500. We have seen the beginning of a record round of mergers and acquisitions, stock buybacks and dividend increases. Lastly, add in increasing flows of foreign capital coming into both the US equity and treasury markets as we are still seen as a place of safety. The bottom line is just follow the cash in motion over the next 12 months and our view is that there will be significant support for US equities.

These times of significant volatility bring anxious moments and many questions. If these come, please reach out to us and we can have a conversation about the plan and our view points.

*-Greg Pierce is the President/CIO of Windward Wealth Strategies as well as the lead member of Caissa's Investment Committee.*



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# the market at a glance

## SEPTEMBER

**U.S. Large Cap**  
(Dow Jones Industrial Average)

**16,284.70** (-1.47%) ▼

**U.S. Mid/Small**  
(Russell 2000)

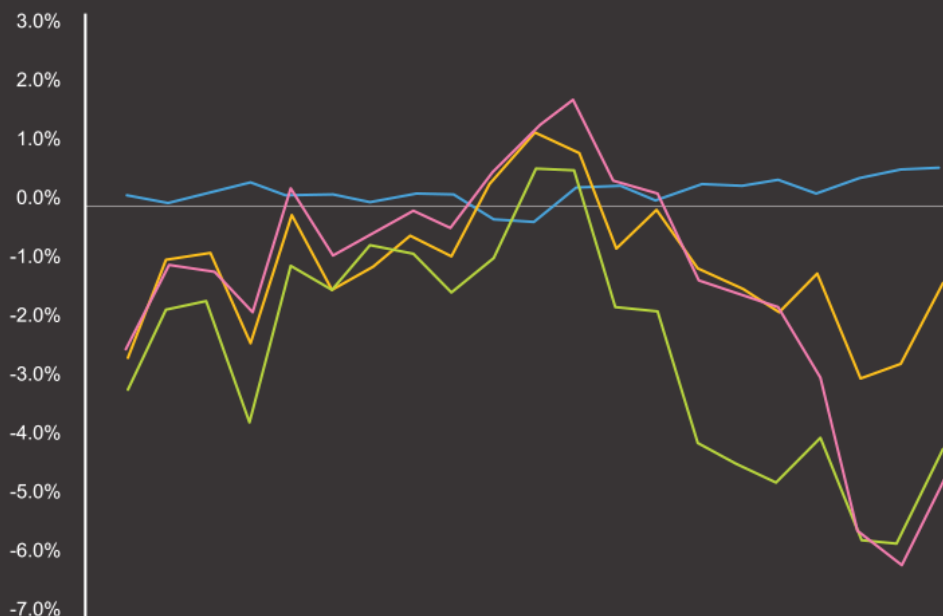
**1,100.69** (-5.07%) ▼

**Foreign Large**  
(MSCI EAFE Index Fund)

**57.32** (-4.42%) ▼

**Bond Market**  
(Barclays Aggregate Bond Fund)

**109.58** (0.61%) ▲



*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 announces that employers added 173,000 jobs in August, pushing national unemployment down to 5.1 percent—the lowest rate since April 2008. Although the August jobs number was later revised down to 136,000 in early October, the unemployment rate maintained its low.
- Japan's Nikkei Stock Average gains 1343.43 points on September 9, the largest one-day point increase for the average since 1994.
- Anheuser-Busch InBev opens discussions with SABMiller about the possibility of a corporate takeover. The conglomerates are already the two largest brewing companies in the world; the purchase, if allowed, would create a globally dominant beer company worth over \$250B.
- After failing to handle last year's holiday shipping rush, United Parcel Service Inc. (UPS) announces plans to hire up to 95,000 temporary workers to support package delivery during the 2015 holiday season.
- Hewlett-Packard Co. states it may cut as many as 33,000 jobs over the next few years as it works to restructure as two separate business entities.
- Volkswagen AG becomes the center of a criminal investigation when it is discovered thousands of its U.S. vehicles have computer systems that actively cheat on emissions tests. If found guilty of misconduct, the Environmental Protection Agency could levy a penalty of up to \$18B against the German automaker.
- Caterpillar Inc. makes drastic cuts to its 2015 revenue forecast and says it plans to terminate as many as 10,000 jobs by 2018.
- Energy Transfer Equity, LP (ETE) announces plans to buy fellow energy pipeline operator Williams Companies Inc. for \$37.7B. Williams had previously refused a June merger proposal from ETE for \$53B, suggesting that weakness in the energy sector has softened business prospects.