FINANCIAL
newsletter

Caissa Wealth Strategies

AUGUST

What is Going on in the Markets this Year?

By Kelly Pedersen, CFP®

Volatility is Here to Stay

It has been another year of monthly swings, for those of you watching. I took a little time and put together some of the peak to trough periods for this year so you can see the up/down volatility of the month to month market. The chart below represents the Dow Jones Industrial Average but the volatility has been everywhere in the markets including overseas, commodities, small caps and midcaps.

DJIA	Value	% Change
12/31/2015	17,823	
1/30/2015	17,164	-3.70%
3/3/2015	18,203	6.05%
5/19/2015	18,372	0.93%
6/8/2015	17,767	-3.29%
6/23/2015	18,144	2.12%
6/30/2015	17,619	-2.89%
7/16/2015	18,120	2.84%
8/7/2015	17,324	-4.39%
YTD		-2.80%

You will begin to notice that how you quote the market these days relies significantly on the timeframes chosen. This is one of the reasons why we don't focus on quarterly or YTD returns much because a week here or there can alter the numbers significantly.

So what is going on?

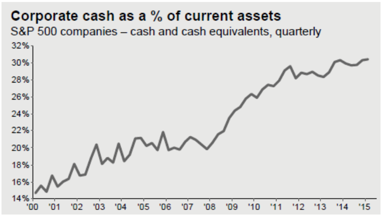
This last week Oil assumed some significant declines and there were a few disappointing earnings announcements. Add to that Friday's employment report and the market is not reacting favorably. Many media companies were hit last week (down about 11%) including Viacom and Disney announced their ESPN subscriptions were down so that stock was crushed quickly (down about 8%). Health Care and Biotechs were hurt as well, down 2%.

Last Friday the employment report came out on par with the Fed's numbers that would enable them to stay the course on a rise in interest rates in September. Unemployment rates held steady as well as wage growth. The market reacted to the downside today. As we saw in my chart above, there have been a number of knee-jerk trading periods in the market this year ranging from the Greece issues to earnings reports to interest rate hike expectations.

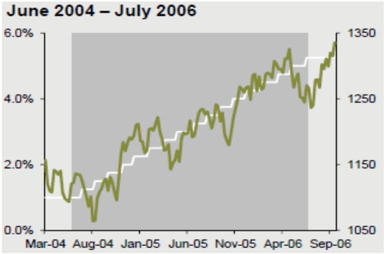
This week, China dropped a bomb on the entire global business community by devaluing their yuan almost 2%. China had been experiencing less than stellar export numbers for consecutive quarters which led them to make this decision. This move could hurt the competitiveness of firms outside China by making their goods more expensive. This in turn, strengthened the U.S. dollar which is a drag on inflation and therefore could possibly postpone any interest rate hikes.

Why Caissa believes there is still room to run

It's three-part: Cash on corporate balance sheets, the effect of the exports from China will take a while to come to fruition and the historical market reaction to a SLOW interest rate hike. First, Corporate cash is an asset that is growing and growing on corporate balance sheets. Companies seem to not have a great place to put it to work so they have either been acquiring other firms, buying back stock or sitting on the cash. Cash earning very little interest is NOT going to sit well with shareholders as a long term strategy so we would surmise that these companies will keep acquiring or buying back shares which in turn, creates growth in the share price. I would agree that this is not the organic corporate growth that I would prefer to see as the reason for stock growth but as our investment committee member, Greg Pierce, says "growth is growth and we shouldn't care where it comes from as long as it's happening."



Secondly, the chart below represents the last time the Fed raised rates in a very slow and conservative manner, which is how the Fed is signaling they will do it this time around as well. You can see that the green line (representing the S&P 500 price index) reacts negatively in the beginnings of the rate hikes but over the two year time frame follows the rate hikes (the 10 year treasury) in step.



So what we are seeing this summer is the volatility of the unknown. We at Caissa are supportive of the Fed to get this rate increase issue started so we can all go back to sound investment decision vs the battle of the Fed's "what ifs."

By Kelly Pedersen, CFP®
Founder and CEO of Caissa Wealth Strategies

the market at a glance

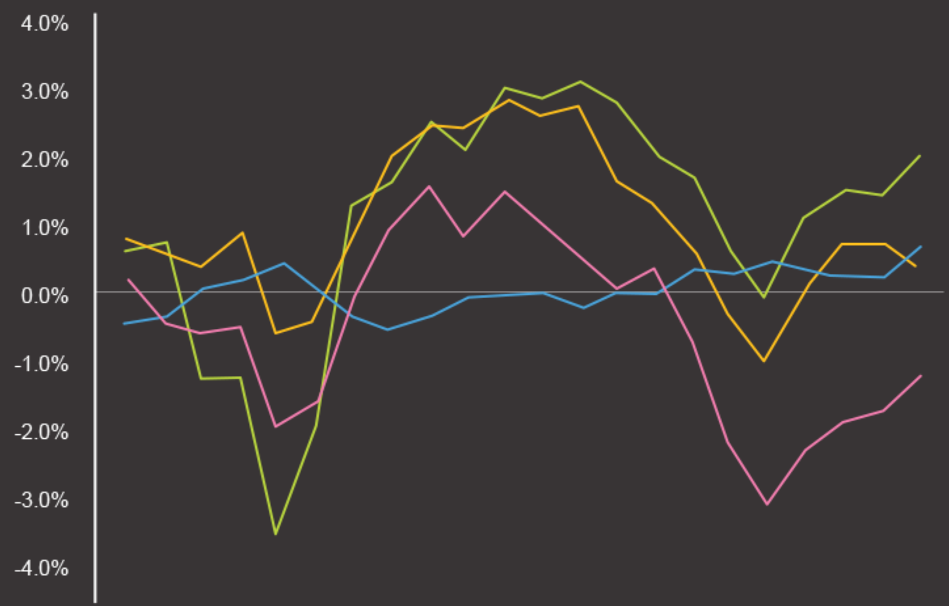
JULY

U.S. Large Cap
(Dow Jones Industrial Average)
17,689.86 (0.40%) ▲

U.S. Mid/Small
(Russell 2000)
1,238.68 (-1.22%) ▼

Foreign Large
(MSCI EAFE Index Fund)
64.78 (2.03%) ▲

Bond Market
(Barclays Aggregate Bond Fund)
109.50 (0.66%) ▲



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

the market in action

- The Commerce Department reports that the U.S. economy grew at an annualized rate of 2.3 percent in Q2 2015. The department also revised its reported Q1 annualized growth up to 0.6 percent from -0.2 percent.
- Oil giant BP agrees to pay $18.7B to the U.S. federal government and five Gulf Coast states in a settlement over the 2010 Deepwater Horizon oil spill. BP estimates its total costs from the spill will reach $40B, including billions already paid in criminal fines.
- The Shanghai Stock Exchange Composite Index displays radical volatility, dropping around 18 percent in the first six business days of the month. Although intervention by the Chinese government allows prices to stabilize in the following weeks, the index is hit by a massive one-day decline of 8.5 percent on July 27.
- Insurance giant Anthem, Inc. reaches a deal to buy rival insurance group Cigna for $54.6B. The buyout follows several other massive insurance mergers in 2015, including the $37B purchase of Humana by Aetna, Inc. earlier in July.
- Volkswagen Group beats out Toyota Motor Corp. as the biggest carmaker for the first half of 2015, selling 5.04M vehicles compared to Toyota’s 5.02M. Volkswagen owns many of the world’s most famous auto brands, including: Audi, Bentley, Lamborghini, and Porsche.
- Hisao Tanaka, CEO of Japanese conglomerate Toshiba Corp., resigns after it is discovered that he had knowledge of an accounting scandal that falsely inflated his company’s profits by $1.2B over many years. Several other senior Toshiba executives resign along with Tanaka.
- In an effort to protect profits amid falling oil prices, major oil companies Centrica, Royal Dutch Shell and Chevron announce global job cuts of 6,000, 6,500 and 1,500, respectively.