We Close out the Third Quarter on Some Solid Economic News

By Bob Deitrick, ChFC
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As we close out the third quarter next week, we have had some very good macroeconomic news over the past 10 days. Last Friday we learned that U.S. household net worth climbed by over $1 trillion in the 2nd quarter. Rising stock and real estate values made up most of these gains. Equity ownership as a part of household net worth grew to 57.1% - the highest level in a decade. Last week we learned that middle-class earnings rose for the first time since the Great Recession and the poverty rate fell by 1.2 percentage points. A Gallup poll came out last week conveying that the percentage of Americans who perceive they are "thriving" has increased over the last 8 years, from 48.9% to 55.4%. Finally, 3rd quarter GDP from the Atlanta Fed came in at 3.0% - slightly lower than expected but sharply higher than the prior quarter. All-in-all the news last week was, as one of our favorite clients from Cadiz, Bill Spiker, likes to say – "not too shabby'.

As we close out the hottest summer on record tomorrow, volatility has returned to the stock market. However, please keep in mind that volatility in September is customary. September is historically the worst performing month of the year and it has brought out the cynics and the dooms-dayers causing some Wall Street analysts to warn that stock prices could fall into correction territory. We disagree with this hyperbole. This is a possibility; indeed, anything can happen. The world could stop turning next week as well, but we suspect that will likely not occur. We disavow these cynical predictions. Here is what we believe based on the facts:

This recent 3% pullback creates a buy and hold argument in our view. Veteran investment guru Tom Lee of Fundstrat Global Advisors agrees with PFP that now is the time to be putting money into the market (the S&P 500 is currently down 3% from its Aug. 23rd high of 2,193).

Steven and I believe that the laws of inertia will apply to stocks as we close out 2016. Since 1940, to gauge what stocks do between September 15th and year-end is simply to look at year-to-date (YTD) performance. We evaluated data points going back 76 years, and 90% of time, if stocks are up over 5% YTD on September 15th, then those gains magnify going into year-end. When stocks are up 5% or more, the market historically rallies into December 89% of the time, and those average gains are 6.2% by year-end. 10% of the time the market fell 3.4%. These facts dictate the probability of a positive year end outcome is 9:1 and the ratio of magnitude of a win to loss is 3:2. There are no guarantees to the market, as you well know, but we believe this represents an intriguing and a solid risk/reward relationship.

On a co-tangent, when stocks are down YTD by mid-September, they historically show no further advances until year end. Tom Lee agrees with PFP that stocks typically rally into year-

end. This line of reasoning may seem oversimplified, especially considering the plethora of market-moving events in this highly charged election year; however, it's worth noting that our study found this pattern held up during Presidential election cycles also.

As Tom Lee explains – "Why is this 'law of motion' at work and what are the fundamental economic reasons why markets should rally from here?" We believe this law of motion is reflecting that whatever forces and factors drive YTD gains, they will likely remain in place through December. We see this at work in 2016 as the United States economy remains on a strong footing and underinvested investors will chase performance driving prices higher."

PFP's 2016 year-end target for the S&P 500 ranges from 2275 to 2400.

We had another interesting interview with Forbes which was published last Friday. We were asked to discuss the results of the current Presidential administration and compare those results from the prior administrations of Clinton, Reagan as well as Bush I and II. We did so and found some rather compelling results. Here are the average annual compound returns from the market from our recent article in Forbes:

President	DJIA	S&P 500	NASDAQ
Obama	11.1%	13.2%	17.7%
Bush	-3.1%	-5.6%	-7.1%
Clinton	16.0%	15.1%	18.8%
Bush	4.8%	5.3%	7.5%
Reagan	11.0%	10.0%	8.8%

We are humbled by our Forbes interview as well as Adam Hartung's comments about our firm last week where he concluded: "Bob Deitrick is CEO of Polaris Financial Partners, a private investment firm in suburban Columbus, Ohio. Their firm uses economic and political models as part of their analysis to determine the best investments for their clients - and is proud to say they have remained long in the stock market throughout the Obama administration gains. For more on their analysis and forecasts contact www.PolarisFinancial.net".

Please don't forget the following dates for our upcoming events and seminars:

- ***Our Next Seminar on Market Volatility is next week – September 30th at Eddie Merlots***
- ***Year End Market Seminars – post election – on November 15th and 18th at Eddies***
- ***PFP is sponsoring "An Evening of Hope" for 501(c)3 Hope Hollow on November 20th***
- ***Our Year End Holiday Celebration will be at the Polaris Hilton Hotel December 18th***

Our Holiday Party in 2016 will feature Phil Dirt and the Dozers and the Orange High Choir