



THE PINNACLE GROUP

Weekly Market Commentary October 2, 2018

The Markets

It wasn't headline news...

But, if newsprint was still popular, last week's key economic news would have appeared below the fold.

The Federal Reserve raised rates for the third time in 2018, as expected.¹ In addition, the Federal Open Market Committee projects economic growth will continue for three more years, although its median numbers show growth slowing from 3.1 percent in 2018 to 1.8 percent in 2021.² (Remember, forecasts, no matter how venerable the source, are best guesses and not bedrock.)

Investors weren't enthusiastic about the Fed's actions or its expectations, and the onset of United States-China tariffs didn't lift their spirits. Ben Levisohn of *Barron's* explained:³

“The Dow Jones Industrial Average dropped 285.19 points, or 1.1 percent, to 26,458.31 on the week, while the S&P 500 fell 0.5 percent to 2913.98. Neither could be considered life threatening, and the S&P 500 still rose for a sixth consecutive month. So, while we need something to blame, we needn't get too worried. Last Monday kicked off with the implementation of tariffs by the United States and China and continued with a Federal Reserve rate hike. Neither was a surprise, though the Fed might have caught a few napping when it removed the word ‘accommodative’ from its statement.”

What does it mean when the Federal Reserve removes the word ‘accommodative?’

The Fed pursues ‘accommodative’ or ‘easy’ monetary policy when it is encouraging economic growth. Accommodative policy may include lowering interest rates or, in unusual circumstances, quantitative easing.⁴

By removing the word, the Fed may be signaling that policy will be ‘tightening’ in an effort to prevent the economy from overheating, reported Sam Fleming of *Financial Times*. There is debate about whether rates are at a neutral level; one that won’t cause the economy to run too hot or too cold.¹

Let’s hope for a Goldilocks economy.

Data as of 9/28/18	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.5%	9.0%	16.1%	15.7%	11.6%	10.2%
Dow Jones Global ex-U.S.	-0.9	-5.2	0.1	8.0	2.1	2.9
10-year Treasury Note (Yield Only)	3.1	NA	2.3	2.1	2.6	3.6
Gold (per ounce)	-1.0	-8.4	-7.5	1.6	-2.2	2.8
Bloomberg Commodity Index	1.0	-3.4	0.7	-0.8	-7.7	-6.5
DJ Equity All REIT Total Return Index	-1.1	2.1	4.7	9.8	9.7	8.4

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron’s, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

WHEN DO YOU BEHAVE THE MOST LIKE YOURSELF? Don’t worry. This isn’t about soul-searching and trying to find answers to existential questions like, ‘Who am I?’ or ‘What is my purpose?’ or ‘How should I live my life?’

Nope. This is about a science experiment!

Ian Krajbich of Ohio State University and Fadong Chen of Zhejiang University in China wanted to better understand how people made social decisions, according to a paper they published in *Nature Communications*. They began with the premise that “Social decisions typically involve conflicts between selfishness and pro-sociality.”⁵

Then, they asked 200 students in the United States and Germany to play “mini-dictator games in which subjects make binary decisions about how to allocate money between themselves and another participant.”⁵

Science Daily explained, “In some cases, participants had to decide within two seconds how they would share their money as opposed to other cases, when they were forced to wait at least 10 seconds before deciding. And, in additional scenarios, they were free to choose at their own pace, which was usually more than two seconds but less than 10.”⁶

The upshot was people who were pro-social became more pro-social, and people with more selfish instincts became more selfish, under severe time constraints. Given more time, “pro-social subjects became marginally less pro-social under time delay...while selfish subjects became less selfish under time delay...though these effects are less pronounced.”⁵

Maybe you behave most like you when you’re pressed for time.

Weekly Focus – Think About It

“Selfishness is not living as one wishes to live, it is asking others to live as one wishes to live.” *Oscar Wilde, Irish poet and playwright*⁷

Keep the Faith. Faith is the Spirit.

Carl

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

* The Standard & Poor’s 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

* All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.

* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

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* You cannot invest directly in an index.

* Stock investing involves risk including loss of principal.

* The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.

* Consult your financial professional before making any investment decision.

Sources:

¹ <https://www.ft.com/content/635daa64-c1ac-11e8-95b1-d36dfe1b89a>

(or go to https://s3-us-west-2.amazonaws.com/peakcontent/+Peak+Commentary/10-01-18_FinancialTimes-Federal Reserve Raises US Interest Rates Despite Trade War Concerns-Footer 1.pdf)

² <https://www.federalreserve.gov/monetarypolicy/fomcprojtab120180926.htm> (Table: Change in real GDP)

³ <https://www.barrons.com/articles/dow-drops-1-1-on-week-as-tariffs-fed-take-their-toll-1538182108> (or go to [https://s3-us-west-2.amazonaws.com/peakcontent/+Peak+Commentary/10-01-18 Barrons-Dow Drops 1.1 Percent on Week as Tariffs Fed Take Their Toll-Footnote 3.pdf](https://s3-us-west-2.amazonaws.com/peakcontent/+Peak+Commentary/10-01-18+Barrons-Dow+Drops+1.1+Percent+on+Week+as+Tariffs+Fed+Take+Their+Toll-Footnote+3.pdf))

⁴ <https://www.investopedia.com/terms/a/accomodativemonetarypolicy.asp>

⁵ <https://www.nature.com/articles/s41467-018-05994-9>

⁶ <https://www.sciencedaily.com/releases/2018/09/180904140530.htm>

⁷ https://www.brainyquote.com/quotes/oscar_wilde_106085?src=t_selfishness



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¹ The FT 400 was developed in collaboration with Ignites Research, a subsidiary of the FT that provides specialized content on asset management. To qualify for the list, advisers had to have 10 years of experience and at least \$300 million in assets under management (AUM) and no more than 60% of the AUM with institutional clients. The FT reaches out to some of the largest brokerages in the U.S. and asks them to provide a list of advisers who meet the minimum criteria outlined above. These advisers are then invited to apply for the ranking. Only advisers who submit an online application can be considered for the ranking. In 2016, roughly 980 applications received; 40.8% (400) were selected for the final list. In 2018, roughly 880 applications received; 45.5% (400) were selected for the final list. The 400 qualified advisers were then scored on six attributes: AUM, AUM growth rate, compliance record, years of experience, industry certifications, and online accessibility. AUM is the top factor, accounting for roughly 60-70 percent of the applicant's score. Additionally, to provide a diversity of advisers, the FT placed a cap on the number of advisers from any one state that's roughly correlated to the distribution of millionaires across the U.S. The ranking may not be representative of any one client's experience, is not an endorsement, and is not indicative of advisor's future performance. Neither Raymond James nor any of its Financial Advisors pay a fee in exchange for this award/rating. The FT is not affiliated with Raymond James.

² The Forbes ranking of Best-In-State Wealth Advisors, developed by SHOOK Research is based on an algorithm of qualitative criteria and quantitative data. Those advisors that are considered have a minimum of 7 years of experience, and the algorithm weighs factors like revenue trends, AUM, compliance records, industry experience and those that encompass best practices in their practices and approach to working with clients. Portfolio performance is not a criteria due to varying client objectives and lack of audited data. Out of 21,138 advisors nominated by their firms, 2,213 received the award. Neither Forbes nor SHOOK receives a fee in exchange for rankings. This ranking is not indicative of advisor's future performance, is not an endorsement, and may not be representative of individual clients' experience. Neither Raymond James nor any of its Financial Advisors or RIA firms pay a fee in exchange for this award/rating.

³ Raymond James Chairman's Council Membership is based on prior fiscal year production. Re-qualification is required annually.