Bell Wealth Management

Equity & Fixed Income Outlook October 2015

Federal Reserve Monetary Policy

The Federal Reserve elected to delay raising interest rates once again. Future markets now suggest the Fed won't raise interest rates until March 2016. When is the best time for the Fed to increase interest rates? Never. This is why it is hard for the Fed to take action. The failure to increase interest rates continues to send a signal to investors that the economy is not doing very well. An increase in rates could actually help the market stabilize.

Inflation

The year-over-year consumer price index (CPI) released in September was 0.2%. This rate is the same as August's rate. The CPI, excluding food and energy costs, remained at 1.8% which was also the same rate as August. We continue to see the consumer impacted greater than these numbers suggest. Perhaps it is due to wage stagnation that has lasted so long. Legislated minimum wage increases will not help solve this particular problem.

Economic Activity

We expect volatile market conditions to exist as long as economic data fails to convince markets that promised economic growth is around the corner.

Rhetoric about federal government budgets and the debt ceiling will turn into talk about a government shutdown, which will then morph into talk about how this will hurt the economy. Let's cut to the chase – there is good debt, and there is bad debt. Good debt is debt incurred to build something today that will generate future revenue capable of covering the interest expense and returning principal. Bad debt is debt incurred that fails to meet this criteria – for example, borrowing money to take a vacation, versus borrowing money to build a home. The $8 trillion increase in federal debt over the last seven years did not build roads or bridges. The higher portion of it went to pay for social program spending, leaving future generations to pay the debt. (It is more accurate to say social program spending became indebted due to the federal government's lack of stewardship.)

The number of eligible workers holding jobs (known as the labor force participation rate) declined again to 62.4%. We would like to see this indicator reverse and move higher to provide a better base for economic growth to build upon.

We continue to be as defensive as we can in our strategies within the boundaries of the investment allocations elected by clients. We remain at the low end of the equity allocation for clients that use our model stock portfolios. Our bond portfolios also remain defensive with shorter maturities and higher interest income than popular indexes.

Fixed Income

Ten-year U.S. Treasury bond yields started September around 2.20% and finished around 2.0%. Very few economists predicted interest rates would decline, but today they are almost 10% lower. The bond market continues to seek the safety provided by fixed income securities, suggesting economic growth prospects remain a concern.

Stock Market

Last month we wrote, "The last few years has conditioned the market to look to the Fed to bail it out." By delaying interest rate action once again, it looks like that behavior is being reinforced. We expect this theme to lose a bit of its shine as low monetary policy rates set by the Fed do not appear to be having meaningful positive economic effects. Corporate revenues are flat, earnings are under pressure and economic growth is not advancing as intended. This suggests volatility likely remains in the stock market.

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Tenure: 9/92

Years of Investment Experience: 30 years

Education: Greg holds a bachelor's degree in business from the University of North Dakota and is a CFA charter holder.