SΨNERGOS Financial Group

MARKET PULSE

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NOT ALL BOATS ARE RISING IN THE TRUMP RALLY

Did You Know: *What Is A Basis Point?*

You may have heard me say the 10 year treasury has gone up by almost 100 basis points in the last few months. Or maybe a TV analyst mentioned that the Federal Reserve is expected to raise interest rates by 25 basis points. So what is a basis point?

A basis point is a unit of measure used to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent).

For example, if the Federal Reserve Board raises interest rates by 25 basis points, it means that rates have risen by 0.25 percentage points. If rates were at 2.50%, and the Fed raised them by 0.25%, or 25 basis points, the new interest rate would be 2.75%.

In the bond market, a basis point is used to refer to the yield that a bond pays to the investor. For example, if a bond yield moves from 7.45% to 7.65%, it is said to have risen 20 basis points.

They are primarily used in respect to interest rates and yields, but may also be used to refer to the percentage change in the value of an asset such as a stock or index.

Source: Investopedia.com

For November, the Dow rose 5.4%, its best monthly gain since March, while the S&P 500 was up 3.4%. Both indexes continue to hit new record highs as investors expect Trump's election will lead to higher spending on infrastructure, lower corporate taxes, repatriation of overseas cash, and reduced regulations.

Some of the best-performing stocks in the post-election rally have been in the Financial sector where shares are up about 14%. The Industrial sector came in a close second, up about 9%. What's been interesting is that nearly half of the 1,200 points the Dow has gained post-election have come from just three stocks.

Goldman Sachs has rallied 26.5% over the past month adding about 320 points to the Dow. In second place is United Health, which tacked on about 150 points with its 15.7% rise. Caterpillar's 17.3% run has added an additional 95 points.

Recent data suggests the economy continues to strengthen. Revised third-quarter GDP indicated the economy grew at the fastest pace in over two years while consumer confidence jumped to levels not seen before the Great Recession. Combined with better than expected job growth, the stage is set for the Fed to raise interest rates this week. They are expected to increase rates by 25 basis points.

While this may sound good, there's another side to the story. First, the stock market has become expensive. Shares are now trading at close to 17 times forward earnings, well above the historic 10-year average of roughly 14.3 (source FactSet.) Additionally, there is no proof that Mr. Trump and a Republican Congress can implement all of his ambitious plans without sparking a trade war or recession.

Second, the 10-year U.S. Treasury note has been crushed based on expectations that the country will need to borrow more money to fund Trump's tax cuts and infrastructure spending. Yields on the 10-year note have catapulted to 2.45% from 1.6% at end of September.   As a result, Nov. was the worst month for Treasury's since Dec. 09.

Additionally, dividend payers like utilities, REITs, and preferred stocks, whose share prices tend to fall as interest rates rise, have not participated in the rally at the same level as other sectors. While a rate hike by the Fed this month seems to be priced in, rates could rise near 2.75% and continue to take a toll on interest rate sensitive sectors as we head into 2017.

Going forward our plan is to be patient with rates and continue to focus on valuation by seeking long term opportunities which we feel exist in areas like pharmaceuticals and consumer staples like Walmart. Sectors which would benefit if Trump falls short of the lofty expectations that have been cast onto his first year in the White House. Furthermore, we expect to see some pricing stability for fixed income soon as yields have reached a point that should encourage investors to rotate away from market volatility and toward long-term safety.

Robert Laura & Drummond Osborn

Some Holiday Trivia?

1) How old is the Grinch's nemesis, little Cindy-Lou Who?
2) Whose secret decoder pin does Ralphie send away for in the movie, *A Christma Story?*
3) Who originally recorded the holiday song, *Frosty The Snowman?*
4) What is the first human gift given in the song, *The 12 days of Christmas?*

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Don't Learn These Retirement Lessons The Hard Way

Traditional retirement questions include things such as, how much money do I need… how much can I withdrawal… and how long will it last?

They are all great questions, but for someone to truly be ready to retire, they also need to have their mental, social, and physical house in order. Therefore, it's important to include a few trick questions in the process to make sure you are truly prepared for it.

Trick #1: What do other people think about your plan to retire? On the surface, this doesn't seem like a "Make it or break it" type question for those on the verge of retirement. However, the way people think about your transition into retirement is important. Setting good expectations and establishing positive communication patterns are essential.

I ask this question because I don't like "surprise" retirement announcements simply because it leaves a lot to be assumed. For example, let's start with possible reactions by some adult children. For the most part, they assume if you no longer have to work, you must be rich enough to not only fund your lifestyle but also theirs as well. This can run the full gamut from housing, food and vehicle needs, not to mention their latest and greatest new business idea.

Trick #2: What are you going to do all day? This is my favorite question because most people have no idea. No matter their age, education, or asset level, I know there are potential problems when they begin their answer with, "Well you know… um."

Retirement takes work and practice. It doesn't just magically work out well for everyone. People often have to establish new relationships, behaviors, and patterns, which isn't always easy after spending 20-30 years doing things their way.

That makes this a good question to ask in order to gauge how well one may be prepared to replace their work identity and fill their time.

Trick #3: Is anyone else retiring from the shop or office with you? Who retirees surround themselves with in retirement is crucial to their success in it. If someone answers, "A couple other guys are… or my best friend already is," there is a good chance of a smoother transition. Simply because they have access to people and a social network to help them acclimate. If however, their answer doesn't include easy access to friends, they may end up feeling like they are stranded on a deserted island.

Therefore, people who are preparing to retire, need to make sure they have a social network in place that will help them replace their normal daytime work friends and duties. That's not to say you should only retire when your friends do, but rather you need to look at your social network as you begin to retire so that you can align yourself with people in a similar situation so you have outlets outside the home.

Trivia Answers

1) Little Cindy-Lou Who is "Not more than two."

2) Ralphie locked himself in the bathroom with Little Orphan Annie's secret decoder pin

3) The singing cowboy, Gene Autry

4) Eight maids a-milking is the first human gift reference