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Dear Investor,

Third Quarter 2015 Market Update:
Volatility Returns to the Stock Market

Over the past couple of months, we have gotten a fresh reminder that volatility is a normal part of the equation for stock market investors. Since mid-August, stocks have fluctuated by more than 1% in a single day on numerous occasions.

The Merriam-Webster dictionary defines the word volatile as "likely to change in a very sudden or extreme way." As it pertains to the stock market, volatility can refer to sudden changes to the upside *or* to the downside. If you're like most investors, it's the sudden declines that are more likely to grab your attention and cause some angst.

Several factors have sparked the recent increase in volatility, including developments in China. China has become an important market for many multi-national companies. Any slowdown there would have a ripple effect across the world economy. In early August, the Chinese government devalued its currency in an effort to stimulate China's export-driven economy. This move surprised many people and was seen as a worrisome sign that China's economy may be weaker than expected.

Anxiety over a potential increase in U.S. interest rates has also weighed on the market in recent months. In fact, if it seems like we have been anticipating a Fed interest rate increase for years now, that's because we have. Many observers expected the Federal Open Market Committee (FOMC) to finally raise short-term interest rates at its September meeting. But when the FOMC decided to delay a potential rate hike, the stock market again reacted with more volatility.

Top 4 Exceptions to the 10% Early Distribution Penalty on Traditional IRAs

Generally, the IRS will impose a 10-percent penalty if you withdraw assets from your traditional IRA before the age of 59 ½.

Lucky for some, the IRS offers a number of exceptions to this penalty. Here are four of the most important ones:

- *First-time home buyers*
- *Medical expenses*
- *Higher education*
- *Disability*

In my view, a small Fed rate hike of 25 basis points (0.25%) would give investors and the markets a much needed boost of confidence. It would signal that the economy is strong enough to stand on its own two feet. Another benefit of increasing interest rates is that this would give the Fed some room to operate if and when the economy experiences another recession. If rates remain near zero, the Fed will have fewer options available to stimulate the economy.

Fortunately, it appears that Fed Chairperson, Janet Yellen, agrees that a rate hike this year makes sense. In remarks last week, Yellen said, "it will likely be appropriate to raise the target range of the federal-funds rate sometime later this year and to continue to raise short-term rates at a gradual pace thereafter [1]…" Of course, she has said similar things in the past, so only time will tell if the Fed finally decides to take action.

While some people worry that higher interest rates are bad for stocks, the stock market has weathered periods of rising interest rates before. In fact, despite some initial volatility, stock prices have generally been higher 6 to 12 months after rate hikes commence. Fidelity investments looked at periods when the Federal Reserve was raising interest rates going back to 1983. On average the market, measured by the S&P 500, was up 6.4% twelve months after the initial interest rate hike.

FINANCIAL PLANNING TRIVIA

WHEN WAS THE LAST TIME THE FED RAISED INTEREST RATES?

A. 2004
B. 2006
C. 2009
D. 2001

ANSWER: B

Source: NY Times

Another concern I've been hearing a lot lately is that the current economic expansion is getting long in the tooth. While it's true we are in the midst of the fifth-longest economic recovery since the end of World War II, the overall growth rate has been lower. This suggests to me that the economy can continue growing at a modest rate for a while longer. With inflation low, gasoline prices falling, and employment strong, I see no evidence of an imminent recession.

As we head into the final months of 2015, I'll be keeping a sharp eye on the markets. As history has shown that, despite frequent periods of high volatility, the stock market has always bounced back and bounced higher. In the meantime, if you have any significant changes in your personal financial situation you'd like to discuss, feel free to contact me at any time.

Thank you for the opportunity to work with you.

Sincerely,

Mike Ovshak
CFP®

[1] *The Wall Street Journal, Yellen Expects Rate Hike This Year, September 25, 2015.*

All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses.

Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is no guarantee of future results.