Market Update

September 13, 2016

Fed, Fed, Fed!

On Friday September 9th, the S&P 500 had its first decline of 1% in a day, since June of this year when Britain voted to leave the EU. The main reason was fears of a Federal Reserve rate hike. On Monday, the next trading day, the markets rebounded a bit on somewhat bullish comments from one of the Federal Reserve committee members. Overnight however international markets got a bit spooked because of potential Federal Reserve interest rate increases and today we are continuing the markets downward trend. The S&P 500 has broken through its 50 day moving average (blue line in graph below) which is a short term trend in the markets that acts as a resistance and support level. It is important to remember that it has been roughly 51 sessions since Britain left the EU, where we had a trading day that saw more than a 1% decline.

Information in this chart above was taken from sources we believe to be reliable; however we do not guarantee its accuracy or completeness.

Many also say that September is the worst month of the year and often October follows suit. Overall corrections in the market are very common especially after the markets had traded up quickly to new all-time highs and lingered. We feel that there could be further downside to around the 200 (orange line in the graph above) day moving average as the next market resistance level on the S&P 500. What we do not believe is that this will be anything more than a normal corrective time in the markets that are common and healthy.

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The Fed: The Federal Reserve through its monetary policy tools has a mandate to support maximum employment, moderate long-term interest rates and provide for stable prices. Low interest rates have fueled a move into equities over the years, as interest rates on interest baring investments have been extremely low. A Federal Reserve that is raising rates makes sense if the economy can handle the increased costs to borrow money. This is a signal that the economy is strengthening and can handle higher prices. Market volatility has gone up which indicates that many believe that it may be too early to raise rates. Ultimately, the Federal Reserve will likely move in 25 basis point increments (0.25%) when it does, which is not very aggressive in our opinion.

Presidential Politics: We cannot ignore the Presidential race as things seem to be getting a little bit closer between the two candidates. In the next couple months we see the markets reacting more and more to the possibilities of who will become our next commander in chief. We will discuss this more in the next Market Update.

Overall: For the remainder of the year, we see the markets remaining soft for the month of September and into October before recovering and remaining positive and close to all-time highs by year end.

What does this mean for you? We are looking at rebalancing portfolio's to make sure they are in-line with long term strategic asset allocations. We believe this is a good time to look at slowly putting new money to work as we get some cheaper prices in the equities markets. Market timing is very difficult to determine in order to achieve consistent success. That said, we understand that cheaper prices are good times to buy but we will not try to pick the bottom. Rather, we will buy in slowly to capture better pricing.

If you have questions or would like to discuss this further with regard to your personal portfolio please contact me at 310-433-5378.

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James M. Liotta
President
Prominence Capital GP, LLC.
jliotta@prominencecapital.com
www.prominencecapital.com

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