

## OVERBOUGHT AND OVERVALUED

Our current equity position remains at a minimal 3% to 4% with stock markets pushing into an overbought condition as probabilities increase for a near-term market decline. Our strategic safety positions in long dated treasuries (TLT) and gold bullion (GLD) have risen with the S&P 500 Index over the last ten days, although the index is still off 4% from its January highs. This goes a long way toward reinforcing the pervading sense of concern that remains as a noticeable backdrop. Last week we continued to add to our core portfolio, in IRAs adding to existing positions that offered low volatility and good interest (SEMMX and MINT) while in our after-tax accounts we repurchased a tax-free bond fund that we've held on and off through the years called the Nuveen Short Duration High Yield Muni Bond (NVHIX).

As of the market close on Friday, the S&P 500 has not had any gains going back to January 5<sup>th</sup> of this year. The financial media is heralding a new "Goldilocks" economic scenario to keep investors from investigating the riskier elements of investing. Remember, Goldilocks is the story of misbehaving girl who enters the home of a family of bears without permission. The majority of the story builds up anticipation about when the bears will return and worry about what the consequences could be.

In the "Goldilocks" market today, some possible lurking bears include:

- concerns about geopolitical risk in the Middle East;
- worries that higher gasoline prices will cut into discretionary spending;
- possible domino effect in the emerging markets (Argentina);
- European concerns with Brexit and now possible upheaval in Italy;
- consequences if historic stock buybacks taper off; and
- questions about whether the Federal Reserve will raise interest rates more than expected.

Goldilocks' famous "not too hot, not too cold, but just right" statement sounds almost optimal. In truth, the bottom line is that without strongly improving economic conditions and vastly improving wages (inflation), the fantasy can remain that the Federal Reserve doesn't have to pull away the spiked monetary porridge quicker than expected by raising interest rates and thereby creating a recession.

Speaking of inflation, the Consumer Price Inflation report, which undershot expectations, resulted in a sigh of relief for stocks and interest rates. Strangely enough, St. Louis Federal Reserve Bank President James Bullard (who has gone extra lengths to keep investors in the stock market – regardless of the risks) stated on Friday that "we should be opening the champagne here, not raising interest rates" and went on to state that he "believes there is currently little inflationary pressure in the U.S."

Unfortunately, if inflation doesn't happen in wages, millions of American consumers will be forced to resort to either spending down their savings or tapping their credit cards to drive the economy higher. Last month, the national personal savings rate dropped from 3.4% to 3.1%, but the consumer credit report showed overall credit at \$11.6 billion for March – which was well off the \$30 billion borrowed in November – and the credit card component of the report actually contracted by \$2.6 billion! Oftentimes, this very low number is a harbinger of a strong bounce back in springtime spending or it could be a sign that the average consumer is unable to layer on additional credit to finance their

spending. On Tuesday morning, the release of the National Retail Sales report showed an increase of just 0.3% for April versus March's 0.8% increase. The culprit? Just a 0.1% increase in auto sales versus the outsized 2.1% increase in March.

This week's economic news will focus on regional manufacturing reports from NY and Philadelphia, Industrial Production and the health of housing (Housing Starts and Building Permits). Earnings over the next two weeks will have a strong focus on national retailers. This week will feature releases from Home Depot, Macy's, Walmart and JC Penney. Next week we have earnings from Kohl's, AutoZone, Target, TJ Maxx, Tiffany & Co., Best Buy and Foot Locker.

As always, we will continue posting articles that we believe to be of great informational value on our website, under the "Great Articles" tab, which is linked here:

[http://summitplan.com/cgi-bin/htmllos.cgi/great\\_articles.html](http://summitplan.com/cgi-bin/htmllos.cgi/great_articles.html).

Additionally, the "Summit Planning Financial Hour" will be live this week on Radio 570-WSYR at 10AM on Saturday. Don't forget to tune in for a recap of the week's events. If you cannot tune in, check out our radio show archive on our website at [http://summitplan.com/cgi-bin/htmllos.cgi/radio\\_shows.html](http://summitplan.com/cgi-bin/htmllos.cgi/radio_shows.html).

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  5. Investors FastTrack is the source for all quoted performance data.
  6. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors.
  7. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.
  8. 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.
  9. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

10. The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.
11. The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
12. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.
13. The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.
14. CBOE Volatility Index is a measure of the implied volatility of S&P 500 index options, calculated and published by the Chicago Board Options Exchange (CBOE).

All indices are unmanaged and cannot be invested in directly.