WEST TEXAS WealthCare ADVISORS, INC.

Presents:

MONTHLY ECONOMIC UPDATE

October 2015

MONTHLY QUOTE

"Humor is the great thing, the saving thing. The minute it crops up, [...] all our irritations and resentments flit away and a sunny spirit takes their place."

– Mark Twain

MONTHLY TIP

Small business owners commonly become preoccupied with day-to-day operations at the risk of inattention to the numbers. Looking at cash flow and financial reports at least once a month is essential.

MONTHLY RIDDLE

It is a promise, a token, a circle unbroken, a symbol of love that need not be spoken. What is it?

Last month's riddle:
At a big event, you can bet I'll be sent. Whenever there's action or a gathered flurry, I'll leave with my crew and I'm off in a hurry. I always try to tell the truth, even from the rain or snow without a roof. What kind of person am I?

Last month's answer:
A TV news reporter.

THE MONTH IN BRIEF

The Federal Reserve left interest rates alone in September, but that did little to calm investors. Growth worries took the market south again – the S&P 500 lost 2.64% for the month as more disappointing economic news filtered out of China. Perceptions of reduced demand for crude oil and other raw materials led to monthly losses in the commodities sector. America's economic indicators looked good by comparison, but encouraging consumer spending and consumer confidence numbers failed to distract Wall Street during a gloomy end of summer for equities.[1]

DOMESTIC ECONOMIC HEALTH

As recently as August, most investors hoped the Fed would hold off raising interest rates in September. The central bank did just that, and yet the market received no lift from its decision. Citing recent "global economic and financial developments," Fed officials voted 9-1 against an upward move – but the policy statement issued after the vote contained a projection of where the federal funds rate would likely be at the end of 2015. The Fed's dot-plot forecast estimated the key interest rate at 0.40% by that time, implying rates would rise in either October or December.[2]

Weak inflation also factored into the central bank's decision. The August Consumer Price Index retreated 0.1%, with the core CPI advancing only 0.1%. Through August, the headline CPI had risen only 0.2% in 12 months (and there had only been a 1.8% rise in core CPI in that time). Producer prices were flat in August and down 0.8% year-over-year. With energy prices so low, that could mean comparatively little inflation pressure lasting into 2016.[3]

American consumers seemed yet to be affected by slowing overseas economies. Personal spending improved by 0.4% in August, with personal incomes rising 0.3%. August saw only a muted gain for retail sales, though: 0.2%, 0.1% with auto sales removed.[4]

The gain in the Conference Board's September consumer confidence index was a nice surprise. The 103.0 reading was 1.5 points higher than the August mark. Nothing similar happened with the University of Michigan's household sentiment survey: it fell from a 91.9 final August reading to an 87.2 final September reading (which was still up 2.6 points from a year earlier).[4,5]

The Labor Department's latest jobs report showed employers adding 173,000 new workers in August. That fell far short of consensus forecasts from the *Wall Street Journal* (220,000) and MarketWatch (213,000). Still, the Labor Department did revise the hiring total for both June and July up to 245,000. The U-6 rate recording "total" unemployment fell to 10.3% (down 1.7% in the past 12 months and underneath its 20-year average of 10.7%) while the basic U-3 unemployment rate declined to 5.1%.[4,6]

On the factory front, orders for durable goods fell 2.0% in August after a 1.9% rise in July; the federal government also measured an 0.4% dip in industrial production in August compared to July's 0.9% gain. Early in September, the Institute for Supply Management presented some declining PMIs. In August, ISM's manufacturing PMI came in at 51.1, down from 52.7 in July; its non-manufacturing PMI presented a much stronger 59.0 reading, though this was also underneath the July mark of 60.3. At the start of October, ISM's September manufacturing PMI came in at a troubling

50.2, indicating minimal sector expansion.[4]

Lastly, the Bureau of Economic Analysis closed the book on second quarter GDP. Its final estimate of Q2 growth was an impressive 3.9%, up another 0.2% from the second estimate.[4]

GLOBAL ECONOMIC HEALTH

Further affirmation of China's economic slowdown appeared; the argument for further easing from its central bank strengthened. September's Caixin/Markit PMI reading (the factory PMI that looks mostly at small and mid-sized firms) declined 0.1 points to 47.2, while the nation's official manufacturing PMI ticked up 0.1 points to 49.8. Both indices still signaled a manufacturing sector in contraction. More unsettling, however, was a report from Markit showing that Chinese companies reduced output in September at the quickest pace since early 2009; a major drop in exports meant China's factories were producing less new products than at any time since 2012. The nation's services industries still seemed to be expanding – China's official service sector PMI read 53.4 for a second consecutive month, while the Markit/Caixin PMI fell to 50.5, a 14-month low. Interestingly, Markit said it will no longer release "flash" factory PMIs for the PRC starting in October; only "final" monthly readings will be published going forward.[7]

After a 6-month break, deflation returned to the euro area: consumer prices were down 0.1% year-over-year through September. (Core inflation, though, rose 0.9% in the same period.) The European Central Bank only projects consumer prices advancing 0.1% for 2015, but it also sees inflation of 1.5% next year on the way to a target of 2.0% by 2017. Eurozone unemployment held steady at 11.0% in August. Markit's overall factory eurozone PMI dipped to 52.0 in September from a 52.3 August reading.[8,9]

WORLD MARKETS

Gains were extremely rare last month. A close look reveals three significant benchmarks that advanced: Korea's Kospi improved 1.10%, Malaysia's Kuala Lumpur Composite 0.51%, and Taiwan's TWSE 0.08%. Elsewhere, losses were prevalent. Other Asian bourses stumbled: the Nikkei 225 fell 7.95%, the Shanghai Composite 4.78%, the Asia Dow 5.02% and the Hang Seng 3.80%. The Sensex lost but 0.49%.[1]

The scorecard around the rest of the world delivered a similar message. Close to home, the TSX Composite retreated 3.98% in September; the Bovespa lost 3.36%, the IPC All-Share 2.49%. The Dow Jones Americas declined 3.21%. Germany's DAX fell 5.84%, France's CAC 40 4.25%, Great Britain's FTSE 100 2.98%, Spain's IBEX 35 6.81%, the Europe Dow 6.32%, Italy's FTSE MIB 2.95%, Russia's RTS 5.26% and the pan-Europe STOXX 600 4.14%. The ninth month of the year also saw the Global Dow fall 4.63%, the MSCI World index 3.86% and the MSCI Emerging Markets index 3.26%.[1,10]

COMMODITIES MARKETS

Crude oil staged no September rebound. At the close on September 30, its NYMEX price was $45.26 a barrel. For the month, oil futures sank 6.00%. Natural gas retreated 5.84% last month while unleaded gasoline futures slipped 16.90% and heating oil stumbled 11.18%.[11,12]

Sugar was September's best-performing major commodity, rising 10.01%. Other crop futures were mixed, with corn gaining 6.87%, wheat 4.07% and cocoa 2.18% and coffee losing 0.25%, soybeans 1.37% and cotton 5.79%.[11]

Gold lost 1.65% for September to a month-end COMEX close of $1,114.60 while silver retreated 0.62% to $14.48. Platinum futures declined 10.06% during September, but copper rose 0.21%. The U.S. Dollar Index moved 0.36% north last month, ending September at 96.28.[11,13]

REAL ESTATE

Respective August reports from the National Association of Realtors and Census Bureau showed a late-summer reduction in resales but also a gain in new home sales. New home purchases were up 5.7% while existing home sales were down 4.8%, ending a 3-month streak of advances.[14]

Freddie Mac's Primary Mortgage Market Survey showed very little movement for home loan interest rates during September. The 1-year ARM showed a marked decrease, with average rates moving from 2.62% in the August 27 to 2.53 as of September 24. Otherwise, the numbers were nearly the same: average interest rates for the 30-year FRM and 15-year FRM crept up 0.02% in that interval to 3.86% and 3.08% while average rates on the 5/1-year ARM ticked up only 0.01% to 2.91%.[15]

Other important real estate indicators arriving in September were decidedly mixed. The S&P/Case- Shiller home price index showed a 5.0% overall year-over-year gain in its July edition. NAR's pending home sales gauge slipped 1.4% for August after rising 0.5% for July. While building permits jumped 3.5% in August, housing starts declined 3.0%; in annualized terms, permits were up 12.5% and starts 16.6%.[4,16]

LOOKING BACK…LOOKING FORWARD

Even the CBOE VIX retreated in September. It lost 3.93%, ending the ninth month of 2015 at 24.50. Of the major stock indices, the Dow held up best, even with heavy international exposure weighing on its 30 components. The blue chips lost 1.47% last month while the S&P 500 fell 2.64%, the Nasdaq Composite 3.27% and the Russell 2000 5.07%. The month's best performer was the Nasdaq Insurance index, which rose 2.90%. September 30 saw the following closes: DJIA, 16,284.70; NASDAQ, 4,620.16; S&P, 1,920.03; RUT, 1,100.69.[1]

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	-8.63	-4.45	+10.19	+5.41
NASDAQ	-2.45	+2.82	+19.01	+11.47
S&P 500	-6.74	-2.65	+13.65	+5.63
REAL YIELD	9/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.65%	0.55%	0.75%	1.78%

Sources: wsj.com, bigcharts.com, treasury.gov – 9/30/15[1,17,18,19]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

Many analysts are now viewing 2015 as a year in the loss column for the S&P 500. Suspicions of a slowdown in China have been repeatedly affirmed; some investors now think the Federal Reserve too timid. As Wall Street wonders if the Fed will maintain its dovish stance this month, it is also bracing for further market drops. To what degree will domestic economic indicators be affected this fall by the malaise in emerging markets? Will the bulls regain confidence, or will waning fundamentals lead to selloffs and merely hope that 2016 is better? If the Fed does raise rates later this month, will that encourage or discourage investors here and abroad? There are so many questions as we enter the tenth month of the year, and that means the market will contend with some troubling uncertainties. Perhaps – perhaps – they constitute only a short-term test on the way to a healthier stock market in 2016.

UPCOMING ECONOMIC RELEASES: For the rest of October, the news-making schedule of releases and reports will appear as follows: ISM's service sector PMI (10/5), the September FOMC minutes (10/8), August wholesale inventories (10/9), the September PPI, September retail sales, August business inventories and a new Federal Reserve Beige Book (10/14), the September CPI (10/15), September industrial production and the preliminary October University of Michigan consumer sentiment index (10/16), September housing starts and building permits (10/20), September existing home sales and the Conference Board's September index of leading indicators (10/22), September new home sales (10/26), the Conference

	Board's October consumer confidence index, September capital goods orders and the August S&P/Case-Shiller home price index (10/27), the Federal Reserve's October interest rate decision (10/28), the first federal government estimate of Q3 GDP and NAR's September pending home sales index (10/29), and then August consumer spending numbers plus the final October consumer sentiment index from the University of Michigan (10/30).

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