aspen wealth management

October 2015

Economic Update: Slowing global growth

The US economy grew 2.4% in Q3, down from 3.9% in Q2. In Europe, the stimulus-induced recovery in the nineteen Euro-currency countries has lost momentum in the second quarter of 2015. The quarterly pace of growth slowed from 0.4% in each of the previous two quarters to 0.3%. Japan's economy contracted -0.3%[1] in Q2. The real wild card in the global economy is China, who has grown 9.5%, 7.8%, 7.7% and 7.4%[2] each year this decade. China is expected to grow between 3-5% this year, the slowest growth in decades.

In the US, job creation is slowing as the August jobs report revised new jobs downward to 142,000.[3] In September, 173,000 jobs were created, versus the economist's estimate of 200,000 jobs. Thus far in 2015, job growth has averaged 198,000 per month, compared with an average monthly gain of 260,000 in 2014. Note that it takes approximately 125,000 new jobs per month to keep up with population growth and 200,000 new jobs to maintain historic growth rates.

The Federal Reserve didn't raise interest rates because its favorite inflation gauge, the PCE (personal consumption expenditures) index, is at 0.3%, well below its 2% growth target. A recent study by Harvard professor Carmen Reinhart for 23 advanced economies shows the median inflation rate is about the same, 0.2%, which is the lowest it's been since 1933.

Market Update: Equity market correction

In the second and third quarters, the US stock market declined more than 10% for the first time in 4 years. Year-to-date, bonds, the second primary asset class along with equities, are up 1.1% as measured by the Barclays Aggregate Bond Index.

Historically, over-valued equities coupled with negative or downside momentum is a high risk environment. When these two scenarios occur, the stock market is vulnerable to significant losses.

Portfolio Update: Market volatility has returned

Our allocation to alternative mutual funds as part of our three-pillar investment approach (stocks, bonds, alternatives) minimized portfolio losses. The group of alternative mutual funds collectively gained during the quarter while the SP500 was down -6.9%. Furthermore, the "alternative pillar" served its purpose of being uncorrelated with stocks and bonds. Although our reduced stock holdings did suffer losses along with the general market, our reduced allocation muted those losses. Our main bond fund, the Doubleline Total Return fund was positive for the quarter.

Our stock market risk indicators progressively turned to "risk-off" during the second and third quarters causing us to reduce portfolio exposure to equities (US and international). When we say "risk-off", we mean reduce exposure to the riskier assets such as equities and high yield bonds. The last of our market risk indicators went to "risk-off" on August 31. We intend to maintain a lower equity allocation until either equities go to new lows or these indicators confirm the upside rewards outweigh the downside risks. We will use these risk indicators to identify when the correction is most likely over and when it makes sense to add more stock positions to our portfolios.

During the quarter, we sold some US equities, the remaining Japan equities, and a grain ETF. We also reduced exposure to a mutual fund holding high yield bonds, which had elements of inordinate risk. We purchased another alternative mutual fund, AQR Market Neutral Fund, and currently hold more cash than in recent quarters.

Thank you for your continued trust and support.

Steve Small and Trevor K. Holsinger

1. http://www.tradingeconomics.com/japan/gdp-growth
2. The World Bank
3. US Department of Labor - Bureau of Labor Statistics

FINANCIAL PLANNING ● INVESTMENT MANAGEMENT ● CORPORATE RETIREMENT PLANNING

913.491.0500 ● 7300 College Boulevard ● Overland Park, Kansas 66210

Disclosure:

Aspen Wealth Management, Inc. is a Registered Investment Advisory firm located in Overland Park, Kansas and registered with the state of Kansas Securities Commission. This newsletter is not a solicitation to buy or offer to sell any of the securities listed or discussed herein. The contents of this letter have been compiled from original and published sources believed to be reliable, but are not guaranteed as to accuracy or completeness. Clients of Aspen Wealth Management, Inc. and individuals associated with Aspen Wealth Management, Inc. may have positions in, and may from time to time make purchases or sales of, securities mentioned herein. References to research conducted and published by other firms and/organizations have not necessarily been independently verified by Aspen. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. You should not assume that any discussion or information contained in this newsletter serves as the receipt of personalized investment advice from Aspen Wealth Management, Inc. Past performance is no assurance of future results. Therefore, no current or prospective client should assume that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Advisor) made reference to directly or indirectly by Advisor in this newsletter, will be profitable or equal the corresponding indicated performance level(s). The reported performance of back-tested models should not be projected into the future; there is no assurance that model performance can be repeated. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for a client or prospective client's investment portfolio. Historical performance results for investment indices, models and/or categories generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. Some of the information contained herein may be our opinion; we make no claims that we are omniscient.
Please refer to our website at www.aspenwealth.com for additional disclosure information.