Volume 23 Number 11
November 2015

SCS Connection

Southern Capital Services, Inc.

Monthly Connection:

- "Santa Claus" Rally
- Congress Strategy for Social Security

Food for Thought

Not what we say about our blessings but how we use them, is the true measure of our Thanksgiving.

W.T. Purkiser

Are you considering using gift cards for your holiday shopping this year?

NYPost.com says:

"There is over $44 billion in unused gift cards that have been issued since 2008 according to CardHub."

How Likely is a "Santa Claus" Rally for the End of 2015

by Wendy Nelson Bailey, CFP®

The accompanying chart shows the S&P 500 Index for the first ten-and-one-half months of the year. You will see that from January through mid-August there was an overall rising market. From mid-August through September we experienced the 10% market correction that we have written about previously. These are not uncommon in the context of bull, or up, markets and in fact normally occur about once per year. In this case it had been over two years since we had such a correction.

The month of October witnessed a sharp recovery that erased most of the correction, while the first half of November has seen a pullback from the recovery. What will the rest of the year hold, into early 2016? Quite often at the end of a calendar year the market will experience what is known as a "Santa Claus" rally because of increased consumer spending around the holidays. Let's now look at the factors for and against a year-end market rally.

First, on the positive side, there is still much money being created around the world. Japan, China, and the European Union are each stimulating their economies by creating large amounts of money. Here in the United States, our central bank has stopped creating money, but the $3.5 trillion they did create between 2009 and 2014 is still in the system with no plan for its withdrawal. All of this money has to go somewhere; we feel that the equity markets are the most likely outcome given the low yields currently offered on cash, bonds, and other asset classes.

Next, the U.S. economy is still expanding, however slowly. While annual growth is only in the 2% range, it is still positive. At the same time, interest rates remain at historic lows. Even if our central bank increases them by .25% in December, it will not have a significant short-term impact. Meanwhile energy prices remain low and should serve to boost consumer spending during the Christmas season. Less spent on gas could mean more spent on gifts. Finally, from a world perspective, the U.S. economy is the strongest in the world at the moment, and this draws money from around the world into our markets.

There are negative factors at play also, that could work against a year-end market rally. One is that there are conflicts and potential conflicts around the world that threaten global instability. Some examples are the war in Syria, the immigration crisis in Europe, and China's posturing for control over vital Pacific shipping lanes. These hot spots, along with a slow global economy, make it difficult for international investing.

Another negative factor is the strong U.S. dollar relative to other currencies. A strong dollar makes it tougher for U.S. companies to export because our goods are more expensive overseas. Contributing factors to a strong dollar are the gradually strengthening U.S. economy, money coming to the U.S. from other countries as a safer place to invest, and the expectation of rising interest rates here.

Finally, the U.S. currently has one of the highest corporate tax rates in the world, and as you might have seen in recent news, some companies are trying to merge or relocate overseas. While changes to tax law are a current hot topic of debate in the run up to the presidential primaries, no changes will be made prior to the end of the year.

What does all of this mean? Our view is that the positive factors slightly outweigh the negative and that we might well be poised for a year-end market rally. This is provided, of course, that there is no unforeseen global event like a major escalation of some of the low-level conflicts. Looking ahead, presidential election years in general have been good ones in the market since whichever party is in power wants to keep the economy going in order to get re-elected. As always, we will keep our diligent watch of events on your behalf and make portfolio changes as appropriate. If you have questions, want to come in for a review, or have a major change in your life such as retirement, relocation, marriage, etc. please contact us to set up a time to talk.

Congress Removes One Strategy for Collecting Social Security

by Eric Nager, CRPS®

In May, we held a seminar for our clients on maximizing one's Social Security benefits. Many topics and strategies were covered, including waiting until age 70 to draw benefits in order to gain a guaranteed increased monthly benefit. Another strategy is called "file and suspend" whereby for a married couple, one spouse could file and suspend his or her benefits at full retirement age and wait to get the increased benefit at age 70. In the meantime, the other spouse could collect spousal benefits during this "suspended" time.

Depending on the life expectancy of a given couple, the file and suspend strategy could have a significant impact on the total amount of Social Security benefits received. Earlier this month Congress acted to halt this strategy from being taken, perhaps in an effort to keep more Social Security dollars from going out of government coffers. As of May 2, 2016, file and suspend will no longer be allowed.

According to Blackrock Funds, who provided the material for the presentation in May, "the filer will have to be collecting benefits in order for his or her spouse or minor dependent children to be eligible for spousal or dependent benefits. Anyone collecting a benefit by May 2, 2016 based on the earnings record of someone who has suspended benefits will be permitted to continue receiving those benefits." So, anyone who wants to try and employ this strategy has a very small window to do so.

If you have questions about this or another Social Security question specific to your situation, please ask us. We can get an answer for you, usually within 48 business hours. It is important to get one's Social Security filing correct, since there is generally only one chance to get it right, and if someone takes reduced benefits, it can have ripple effects for spouses and survivors.

Happy Thanksgiving

From your Southern Capital Team!