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To Our Clients, Partners, and Friends –

Halfway through 2016, the U.S. and World economy have yet to buck the trend in either direction. We have become accustomed to the same script of volatility, slow growth, and speculation on interest rate hikes. The U.S. economy, although tepid by historical standards, has real GDP growth of just over 2% in 2016<sup>1</sup>. The forecast for potential real GDP growth in 2016 for the U.S. is 1.81%<sup>2</sup>. Higher actual growth has an inflationary effect—a tightening of the labor market, upwards pressure on wages, and support for an interest rate increase.

This should be welcome news for the Federal Reserve as there is a strong desire to normalize monetary policy. But the central bank is at a crossroads, apprehensive that such a move would undercut the expansion by further strengthening the dollar. This is a perfect example of the current seesaw nature of the global economy. Through all of the ebbs and flows, U.S. GDP has grown by an average of 2.1% per year since the recession ended in 2009. In other words, this is the slowest economic expansion of the post-World War II period<sup>3</sup>.

Consumers, however, have done their part. When measured against disposable income, household net worth was at all-time low before the housing bubble burst in 2008. What ensued can only be referred to as The Great De-Leveraging. Fast forward to 2016 and the same analysis shows that debt service payments are just under 10% of U.S. disposable income. This is well under the historical average of 11.5% and puts household net worth near an all-time high<sup>4</sup>. For the moment, at least, it seems that the American people have learned their lesson from the housing crisis.

It stands to reason that our new found frugality would be rewarded. In large part, financial markets and institutions operate on the tenet that both savers and lenders must be incentivized. The prolonged environment of zero and near-zero interest rates has weakened this essential purpose. Internationally, it has been turned upside-down. As of today, roughly 500 million people in 25% of the world economy are living with negative interest rates<sup>5</sup>.

The theory behind negative interest rates is that they encourage the flow of capital. If institutions are penalized by the central bank for holding cash, they will presumably be forced to extend loans. Similarly, consumers will be reluctant to deposit cash into savings, forcing their hand to invest in capital markets or private investments. The risk is that banks will have to take more risks to be profitable and that investors will hold cash instead of investing. It is still too early to tell if this experiment is working, but more central bankers and policymakers are warming up to the idea. There are two truths regarding the presence of negative rates—traditional policy tools have been ineffective and the pressure on currency exchange rates is increased.

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<sup>1</sup> LPL Research, Market Insight Quarterly: 06/30/2016

<sup>2</sup> Organisation for Economic Co-Operation and Development, Real GDP Forecast

<sup>3</sup> Bloomberg, Nowhere Fast: 7/11/2016

<sup>4</sup> Federal Reserve Board, Cost of Servicing U.S. Household Debt

<sup>5</sup> Bloomberg, Less Than Zero: 6/6/2016

The lackluster status quo of economic growth and central authorities making questionable policy decisions is being combined with a stagnating living standard. Add geopolitical forces, and it's no surprise that populist pressure is mounting in the U.S. and Europe. The outcome of the British referendum to leave the EU led the yield on the 10-year Treasury to fall by 0.30%, suggesting increasing angst amongst investors<sup>6</sup>. In contrast, buoyant stock prices signal that there is an absence of much concern. The Dow Jones has reached a new historic peak, bouncing back by over 7% after taking a 5% drop on the day of the Brexit<sup>7</sup>.

Expect more of the same for the second half of the year. Volatility should remain high as the business cycle ages, the European Union wrestles with the Brexit, and the U.S. presidential election takes its course. Low yields overseas, especially in Japan, should continue to put downward pressure on domestic yields. The recent stabilization of oil prices should provide a solid backdrop for a rebound in earnings and a modest pickup in growth. Looking across the globe, no major economy appears to be in a particularly strong, nor a particularly weak position.

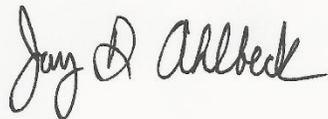
Thank you for your continued confidence in Planning Capital Management. If you have any questions or comments, please do not hesitate to contact us. We welcome the opportunity to discuss our thoughts in greater detail.

Sincerely,



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<sup>6</sup> LPL Research, Market Insight Quarterly: 06/30/2016

<sup>7</sup> The Wall Street Journal, Dow Presses On to Historic Peak: 7/13/2016