



September 10, 2013

A Downside to Privacy and Security?

I am a big advocate of privacy. But when it comes to our financial matters there is a downside to it that can cost a lot.

We are increasingly going online to access our accounts, get bills and statements etc. in an electronic format. Living our financial life on the internet demands that we be careful to guard our privacy. Most institutions do a good job to remind us to be careful, change passwords regularly, use more abstract passwords etc.

Unintended consequence: for most of us, our financial lives get complicated with multiple accounts, multiple email accounts and multiple passwords. All this happens gradually; we never intended life to get so cluttered.

But, what if something happens to you? Now suddenly all the privacy, security controls etc. work against your family. Can your spouse or children get to your accounts without access to passwords? Do they even know where to go and where the accounts are? Might you lose them to escheat?

And this can cost a lot in aggravation and in opportunity costs.

So, one solution is to create an I.C.E ("In Case of Emergency") folder, and keep it updated. This keeps a record of all your important data so that people you trust can get to it in an emergency. A good starting point for this is our Personal Document Locator. (Email me if you want a copy).

MARKET MONTH: AUGUST 2013

The Markets

After July's record closes for the S&P 500, the Dow industrials, and the Russell 2000, equities

a U.S. military strike in the Middle East, typically low late-summer trading volumes, and the potential for an eventful September combined to raise investor unease. In equities, the large-cap dividend-paying Dow industrial stocks took the brunt of the selling as investors began to eye rising interest rates in the fixed-income world. Despite a three-hour "flash freeze" in trading of Nasdaq securities, the Nasdaq's August losses left it with the month's best performance, while the Global Dow did better than its U.S. peers.

As September's highly anticipated Fed monetary policy meeting drew closer, the benchmark 10-year Treasury yield soared to levels not seen in more than two years. Since bond prices move in the opposite direction from yields, bond markets generally suffered. That was particularly true for muni bonds, which also were hit by spillover anxiety after Detroit's July bankruptcy declaration. Gold gained almost \$100 during the month before falling back slightly to end at just under \$1,400 an ounce. Oil prices hovered around \$107 a barrel for most of the month as Middle East conflicts heightened concern.

Market/Index	2012 Close	Prior Month	As of 8/30	Month Change	YTD Change
DJIA	13104.14	15499.54	14810.31	-4.45%	13.02%
Nasdaq	3019.51	3626.37	3589.87	-1.01%	18.89%
S&P 500	1426.19	1685.73	1632.97	-3.13%	14.50%
Russell 2000	849.35	1046.75	1010.90	-3.42%	19.02%
Global Dow	1995.96	2236.30	2182.63	-2.40%	9.35%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	1.78%	2.60%	2.78%	18 bps	100 bps

Equities data reflect price changes, not total return.

The Month in Review

- The U.S. economy grew more than previously thought in the second quarter, according to the Bureau of Economic Analysis. The 2.5% annualized growth in gross domestic product is substantially higher than either the initial estimate of 1.7% or Q1's 1.1% growth. An 8.6% increase in exports and imports that were lower than previously thought were the biggest factors in the GDP revisions. Business investments were up 9.9% and corporate profits rose

2.6%, while the federal sequester budget cuts contributed to a 0.9% decline in government spending. Though another revision is due in late September, this is the last GDP report before the Fed's next monetary policy meeting.

- The unemployment rate fell to 7.4% in July, its lowest level since December 2008. However, the 162,000 jobs added to the nation's payrolls during the month were far less than the 189,000 jobs averaged over the last year, and the Bureau of Labor Statistics said part of the unemployment rate's decline from June's 7.6% resulted from some discouraged workers leaving the workforce.
- Freddie Mac said the rate for a 30-year fixed mortgage continued to push upward, hitting a two-year high of 4.58%. Higher mortgage rates may have helped spur home resales in July, but they didn't seem to do the same for sales of new homes (the reverse was true in June). The National Association of Realtors® said sales of existing homes were up 6.5% for the month, but the Commerce Department reported a 13.4% drop in new homes sales. In the cities measured by the S&P/Case-Shiller 20-city index, home prices continued to rise, but at a slightly slower pace; June's average 2.2% gain put prices 12.1% ahead of last June. In new residential construction, the Commerce Department said construction of single-family homes slumped 2.2% in July. However, increased construction of apartment buildings helped push up housing starts by almost 6% for the month, and building permits--an indicator of future activity--rose 2.7%.
- Led by higher costs for housing, gas, clothing, and fruits and vegetables, consumer inflation rose 0.2% in July. That's less than June's 0.5% increase, and the Bureau of Labor Statistics said wholesale prices remained steady. The annual consumer inflation rate is now at 2%, while annual inflation at the wholesale level is 2.1%.
- Slower car sales hurt July retail sales, though the Commerce Department said overall retail sales still rose 0.2%. Meanwhile, the 0.1% increase in both consumer spending and personal incomes was less than in June, according to the Bureau of Economic Analysis.
- U.S. manufacturers saw accelerating growth in July, according to the Institute for Supply Management's gauge of manufacturing activity, which rose from June's 50.9% to 55.4% (the highest reading of the year). Meanwhile, the ISM's index for the services sector soared to 56% from the previous month's 52.2%. The Federal Reserve's measure of industrial production was unchanged in July, though the Commerce Department said business productivity rose at an annualized rate of 0.9% during the second quarter.
- The Federal Open Market Committee decided not to cut its bond purchases in August, citing the potential threat of rising mortgage rates to the economy. However, the decision did little to calm speculation that the \$85 billion a month now being spent might be reduced as early as September.
- China's Customs Administration said imports into the world's second-largest economy were up 11% from the previous July, while exports rose 5.1% over the year. In the United States, lower imports and higher exports cut the U.S. trade deficit by more than 22% in June to its lowest level since October 2009.
- A "flash freeze" attributed to a technical glitch left Nasdaq-traded securities in limbo for more than three hours on August 22. Also frozen was US Airways' proposed acquisition of American Airlines, as the Justice Department filed an antitrust suit seeking to block the merger that would create the world's largest airline. The Justice Department, along with the

Securities and Exchange Commission, also filed civil charges of fraud against Bank of America, alleging that the bank deliberately sold residential mortgage-backed securities without fully disclosing the risks involved in the underlying loans.

Eye on the Month Ahead

September could be an eventful month for financial markets. The 800-pound gorilla is the September 18 Federal Open Market Committee meeting announcement; speculation that Fed bond purchases could be reduced at that meeting has driven bond yields up and some emerging-market currencies down in recent weeks. Renewed congressional rancor over budget deficits is likely to reappear as another deadline for raising the nation's debt ceiling approaches. Overseas, German Chancellor Angela Merkel is considered likely to be reelected, but a defeat would heighten global anxiety about the eurozone's financial stability. In Japan, a decision is scheduled on whether to implement a scheduled 3% consumption tax increase next April. Coupled with continued turmoil in the Middle East and the mid-month quadruple witching options expiration, such events could keep traders on high alert for much of September.

Key dates and data releases: U.S. manufacturing, construction spending, auto sales (9/3); balance of trade, Fed "beige book" report (9/4); U.S. services sector, business productivity/costs, factory orders (9/5); unemployment/payrolls (9/6); 10-year Treasury note auction (9/11); 30-year Treasury bond auction, Treasury budget figures (9/12); wholesale inflation, retail sales (9/13); industrial production, Empire State manufacturing survey (9/16); consumer inflation, international capital flows (9/17); Federal Open Market Committee announcement/forecasts, housing starts (9/18); home resales, Philly Fed manufacturing survey (9/19); quadruple witching options expiration (9/20); German parliamentary election (9/22); home prices (9/24); durable goods orders, new home sales (9/25); final estimate of Q2 GDP (9/26); personal incomes/spending (9/27).

Data sources for non-equities performance: U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold, NY close); Oanda/FX Street (currency exchange rates). All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. Equities data reflects price changes, not total return.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indexes listed are unmanaged and are not available for direct investment.

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