

Quarterly Review

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by Jack P. Cannata, CFP®, CPA

It sometimes unnerves me that my understanding of events can be interpreted so differently by other people that I view as rational. I am not referring to politics here (I certainly don't want to go there), but to historical fact. We were traveling in late September with a group of friends to Canada's wine region. Yes, Canada does actually have a wine region in Southern Ontario. Niagara-on-the-Lake is a town that sits on a peninsula bordering the shores of Lake Ontario, just north of Niagara Falls. It's a rather small region, with a unique micro-climate derived from its proximity to the Lake to the north and west and geographical formations to the south. The area is cooler in summer, warmer in winter and gets dramatically less snow than it's the surrounding region. The wines are good, but not outstanding, in my view. Anyway, the War of 1812 was fought in the area and the town of Niagara-on-the-Lake was burned to the ground in 1813 by the American army as it retreated in victory. You can't feel too bad for the Brits as they burned Washington, D.C. to the ground later in the war. (Again, I am not going to comment.) As I am somewhat of a history buff, I spent the better part of Saturday morning and early afternoon on a historic walking tour. Although the tour guide was very knowledgeable (and likely held an advanced degree in history) I could not get over her apparent misunderstanding of historic facts. She kept referring to the traitors (those that fought for the Crown during the Revolution) as Patriots and to the American Revolution as a civil war. Of course, living north of the border, her interpretations of historic facts could be viewed as rational. I have simply never thought of the American Revolution or the War of 1812 from that perspective and the concept is a bit unsettling.

In September, the Federal Reserve under the leadership of Janet Yellen decided not to raise the federal funds rate, thus leaving the target rate of interest at 0% to 0.25% which has been in place since December 16, 2008, nearly 7 years. Although I am not an economist, Econ 101 taught that excessively low interest rates for an extended length of time lead inexorably to inflation.

Yet no inflation seems imminent and many governments in the Developed World are more concerned with the prospect of deflation. So what gives? Is the economy continuing its recovery from the worst pull back since the 30's or have we peaked for the cycle with recession looming ahead? That question seems to be on the minds of many in the investment community and I believe has led in part to the endless roller coaster ride that has been the markets in recent months. I personally do not believe that the economy is currently headed into another recession. Although the economic data is not as strong as anyone would prefer, the majority of data is positive and jobs, wages and confidence continue to rise. But like the guide on the historical walk in Ontario, others take a contrasting and somewhat unnerving view. They are of the opinion that the economy (and markets) have peaked for the cycle. Although few anticipate a downturn that compares with the Great Recession, they do predict a contracting economy. With time we will be able to ascertain who is correct. Regardless of how things turn out longer term, the market volatility that has been endemic

as of late is likely to continue unabated for some time to come. Our best advice is to adhere to your strategy, diversify your investments and continue on the path established towards reaching your goals.

As always we thank you for your business and for your continued trust.

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